

Financing Public Schools in the United States

By

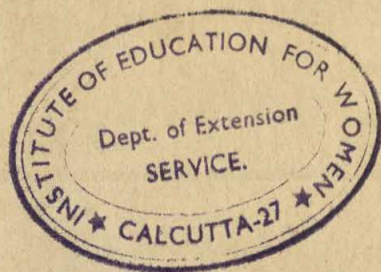
ARVID J. BURKE

95

EXPLORATION SERIES IN EDUCATION

Under the Advisory Editorship of
JOHN GUY FOWLKES

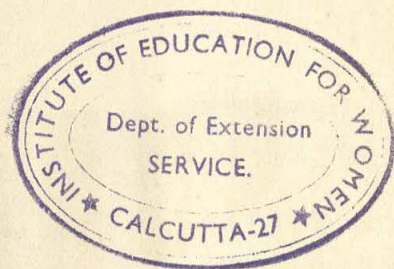
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UNITED STATES OF AMERICA



FINANCING
PUBLIC SCHOOLS
IN THE UNITED STATES



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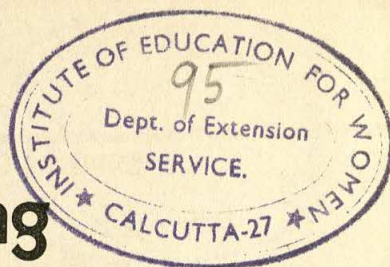
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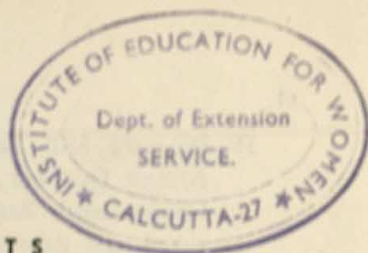
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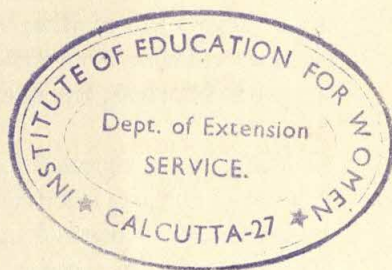
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EDITOR'S INTRODUCTION

The incomparable importance of developing human beings at all age levels is being recognized in the United States as never before. Specialists in the psychological and sociological aspects of individuals, school curricula, and methods and techniques of teaching have presented the ways and means or the "know-how" of providing school experiences which will develop human beings, in keeping with their interests and capacities, to an infinitely higher degree than was previously possible. We know at least some of the underlying experiences which cause human beings to be the way they are. We know at least in part why some individuals are pleasant, whereas others are chronically obnoxious, why some men are dependable and can be trusted whereas others are anything but reliable.

In other words we know some of the characteristics of a really good school. Despite this knowledge most of our schools leave much to be desired. Any superintendent of schools knows that the basic reason why we do not have good schools universally in this country is the lack of adequate funds for our schools. Much more generally than ever before laymen as well as educators recognize that good schools demand adequate financial support.

In light of these facts one of the major functions of any school administrator is that of interpreting the educational program in terms of financial requirements. Another attendant function of any school administrator is that of joining with the citizenry in determining the soundest ways in which to derive adequate financial support for public education.

Good school administrators long ago realized and recognized that school people dare not merely ask the paying public for any given sums of money without full and valid explanations and illustrations of

the kinds and quality of experience such money will provide in the educational opportunity to be offered. It is therefore clear that those responsible for the administration of our schools must have a scholarly and at the same time practical understanding of not only how much money is needed for our educational institutions but also the sources of public school revenue.

The responsibility for the financial support of public education falls on all citizens, both individually and collectively. Governmentally, the support of public education is therefore the responsibility of all governments, local, state, and national. Hence the school administrator must have intimate understanding of this obligation and join with professional colleagues and other taxpayers alike in determining the specific financial assignment of each of the various governmental units.

As more adequate funds for the support of public education are provided, the responsibility and obligation for as nearly perfect operational management increases. So the school administrator must then be ever even more alert to the financial and business management of public education with respect to such matters as budgets, debt, business procedure, accounting, auditing, and reporting.

Those who are familiar with *Defensible Spending for Public Schools* will in no way be surprised that Dr. Arvid J. Burke has written a treatise which meets the needs of the school administrator in keeping with the previous discussion. The volume hereby presented is comprehensive, faithful to fact, interesting, well-written, and at the same time a practical work on, in a very real sense, the most important aspect of our educational program. It is my belief that this volume will prove highly valuable in the study and practice of public school finance.

JOHN GUY FOWLKES

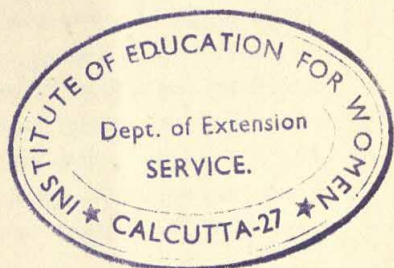
P R E F A C E

The main purpose of this book is to provide a background for determining policy and practice in the financing of public schools. Attention is called to the postwar trends which are creating serious financial problems. Facts and principles are presented which will aid in the interpretation and understanding of the problems and the formulation of sound solutions. Material is included which will give guidance in obtaining maximum returns for school expenditures. It is hoped that it will serve as an up-to-date reference for students of education and others interested in the public financing of schools.

The book is divided into four parts. Part One gives the background for understanding and interpreting public school expenditures. Part Two traces the development of revenue institutions with an appraisal of each revenue source. Part Three outlines the major policies and practices of central governments in public school finance, showing their implications, and appraising them against principles. Part Four summarizes the elements of financial management with the emphasis upon values, major decisions, and intelligent use of technique rather than upon the specific details of management. Chapters I-V, X, and XVI provide an introductory treatment of school finance.

Local operation of public schools by independent school governmental units with considerable local responsibility for budgeting and the management of income, indebtedness, and expenditures, together with considerable state responsibility for revenue raising, characterizes public school finance in the United States. Although over half the revenues for public schools still are collected by local units of government, the federal and state governments now are providing over 40 percent. Potential increases in attendance, attainment of defensible minimum standards in staffing and services, provision of satisfactory

FINANCING
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CHAPTER 1

Public School Finance Problems

THE POSTWAR ECONOMY AND PUBLIC FINANCE

The effects of war upon the economy of the United States are serious and will not disappear for a long time. In the five-year period 1941-1946 the federal government spent some \$350 billion for war. A considerable part of the outlay represents resources destroyed or transferred out of the economy. Another large part represents compensation for largely nonproductive services.

Mobilization of human and natural resources for four years of large-scale warfare created a huge backlog of consumer demands for durable and semidurable goods, such as housing, automobiles, household equipment and furnishings, and tools used in civilian production. The destructive and disruptive effects of war in other nations created an abnormal foreign demand for our foodstuffs, basic raw materials, tools, and consumer goods.

International tensions following the war have almost the same effects as war. We were forced in 1949 to devote over \$12 billion a year to the military establishment, which takes goods and services out of the civilian economy. We are called upon to bolster the weakened economies of Europe and Asia. The abnormal foreign demand for domestically produced foodstuffs, raw materials, tools of production, and consumer goods continues. Since most of foreign transactions represent gifts rather than exchange, the net effect is to reduce the domestic supply of want-satisfying goods and services.

INFLATION

The consequence of war is inflation. In order to spend \$350 billion for war, the federal government increased its debt by nearly \$230 billion. Government securities became the chief asset of banks, thereby increasing the money supply. The national income more than doubled between 1940 and 1945, rising from \$81 billion to about \$183 billion.¹

While the money supply was increasing so rapidly during the war, the supply of consumer goods was drastically curtailed, but price controls tended to limit consumers' bidding against each other for the limited supply. Heavy taxes diverted some of the extra money from private consumption. Liquid assets in the hands of private individuals increased through the sale of government bonds and the rise in bank deposits. Personal savings rose from \$3.7 billion a year in 1940 to \$35 billion in 1944 and \$28 billion in 1945.

As soon as the war ended, the accumulated domestic demand and the abnormal foreign demand, particularly for foodstuffs, combined with an inflated money supply and increased liquid assets to bring heavy pressure upon prices. As soon as price controls were removed, consumers began competing with each other for scarce goods. Consumer spending increased over \$50 billion a year between 1945 and 1948. Personal savings dropped to about \$5 billion a year in 1947. Consumers began to convert their liquid assets into cash for consumer spending. Production could not expand as had the money supply available for consumption. As a result wholesale prices rose over 100 per cent between 1940 and 1949; and retail prices followed the same trend, with a certain amount of lag.

During the war years federal deficit-financing was the chief contributor to the expansion of the money supply, but in the postwar years the expansion comes from another source, bank credit. Shortages created by the war, heavy foreign demand, need for replacement and modernization of productive plants, and the high cost of labor and materials for such projects stimulated a strong demand for credit to

¹ Statistics for this section are taken from *The Handbook of Basic Economic Statistics* (1950 Edition).

construct productive and distributive facilities and housing. Expenditures for new plant, equipment, and residential housing nearly quadrupled between 1945 and 1948, reaching an estimated total of over \$26 billion. The purchase of expensive goods like automobiles increased the demand for consumer credit. It nearly tripled in volume between 1945 and 1949 (\$17 billion annual rate). Between 1945 and 1949 the national income increased at least another \$45 billion, attaining an annual rate of over \$215 billion.

The decisions and actions of individuals and groups in the face of rising prices and heavy demand contribute to inflation. Businessmen and consumers tend to buy more than they can use currently to avoid higher prices, thereby increasing demand and contributing to price increases. Urban workers, women, and persons on fixed incomes faced with rising prices, particularly for food, tend to take on additional employment. Although this movement increases total production, it does not increase the supply of food. Inflationary pressure on food prices is accentuated. Organized labor responds to higher prices with demands for higher wages and private institutions and governmental units in order to attract and keep personnel are forced to increase salaries and wages. Such increases in the absence of increased production of scarce goods tend to bid prices of these goods to higher levels. In order to increase production, huge capital investments must be made. Gross private investment rose from about \$13 billion in 1940 to about \$45 billion in 1948. Although capital formation ultimately increases production and reduces the effects of inflation, temporarily it contributes to inflationary tendencies by diverting resources from consumer goods to capital goods.

A debt and price structure created by war destruction, postponed domestic demand, and abnormal foreign demand contains a substantial element of instability. Debts for things which no longer exist are a drag on the entire economy, but the \$230 billion of debt for war is not likely to be repudiated; and it is probable that the government will attempt to keep the price level at or above that at which the debt was created. Government seems reluctant to levy heavy taxes to repay the debt as rapidly as possible. Organized labor will resist decreases in money wages and organized business will try to hold the price line. On

the other hand, the backlog of domestic demand eventually will be met and foreign demand will slacken with world economic recovery and the reestablishment of trade. This will reduce the pressure upon domestic prices, particularly for food and basic raw materials. In the meantime, with vast capital improvements and nearly full employment, production will mount. Buyers' markets and producer competition will return for particular commodities. Consumer resistance to high-priced goods and services will develop. Capital investments in particular segments of the economy where demand is falling will be restricted. Unless there is a rise in living standards sufficient to offset such factors, the general price level will tend to drop. Then business and consumers will tend to use up inventories and stocks of goods bought in advance of need. Buyers will tend to postpone purchases in hope of further price decreases. Employment will fall off in particular industries, thereby further restricting consumer demand. If these things happen, a sudden and drastic readjustment in the economy might follow at any time.

The operation of the foregoing forces was becoming evident in 1949. Income had been declining and unemployment increasing. The price level had been stabilizing with price decreases evident for particular goods and services. Personal savings had been increasing and sales resistance had been developing. Industrial production had dropped and inventories had been shrinking. As this book goes to press the Korean War is stimulating inflation. It is impossible to know if the readjustment will be gradual or if another depression may develop.

Even if a depression should occur, the level of income and prices probably will tend to stabilize at relatively high levels compared with the prewar era. (1) There has been a large expansion of productive capacity. (2) The wage and price structures have strong elements of rigidity—minimum-wage laws, price support, labor contracts, pricing agreements, and monopolistic practices. (3) The national debt has not been reduced much; and state and local borrowing must be increased to meet urgent needs for public facilities. (4) Military and foreign aid expenditures are still relatively large. (5) Both personal savings and personal debt have been increasing; and the federal government has underwritten a large part of personal debt through such measures as

veterans' benefits, guaranteed mortgages, and protection for savings accounts. (6) Social security programs and their extension will tend to keep money in circulation quite independent of production. (7) The federal government has continued to exercise economic controls. Fiscal necessity and political pressure will operate to keep the money supply at relatively high levels.

PRODUCTION AND PRODUCTIVE CAPACITY

Natural resources destroyed in the war effort never can be replaced, but the discovery of new sources of power, inventions, technological advances, and plant expansion stimulated by the war make possible greater production. However, the physical volume of agricultural production has been rising only gradually in spite of great demand and high prices. The index for 1949 was only about 25 percent above the 1940 level. Industrial production has expanded more rapidly, the index for 1949 being up over 50 percent. Even after deducting goods and services sent abroad to bolster other economies, increased production has made possible higher living standards.

A rise in living standards by itself is not an index of a sound economy. If the development is left wholly to the promotion efforts of individual producers and to individual consumer decisions, it may be largely materialistic. As less productive effort is required to supply food, clothing, medical attention, and shelter, the expansion has taken place in transportation, recreation, liquor, tobacco, and amusements. Large increases in some of these may impair the health, habits, and morality essential for maximum production. The more intangible values—education, religion, social service, and cultural pursuits—have difficulty in marshaling demand in the market place. Yet such services are essential to the maintenance of the economy. Reduction in the human effort required to meet basic life essentials releases manpower and resources which could and should be used to improve essential social services.

The values revealed in the pattern of consumer spending in the United States deserve public concern. A relatively small percentage in 1949 was devoted to public education (about 2 percent), private education (less than 1 percent), and religion and welfare (about 1

percent). The percentages devoted to alcoholic beverages (about 5), automobiles and travel (about 10), and recreation (about 6) are much larger. Although these represent consumer choices partly influenced by producer promotion and largely determined by man's nature, they should cause us to reflect. It is true that the percentages include heavy commodity taxes which are used to help finance education and other governmental services, but the preferences of consumers are not altered by allowing for this factor.

PUBLIC FINANCE

Public finance is a means for providing essential services which do not materialize sufficiently under individual consumer choice and the price system. Where benefits are diffuse and not always immediate, it is difficult to develop consumer interest and producer promotion. Governments through finance can direct resources and effort into such services. Public policy and choice as expressed through legislative institutions replace free individual choice in the open market, but a service is produced as part of the standard of living, and it should be produced with the minimum outlay of resources to be economically sound.

Public finance also is used to transfer money from one group of people to another through welfare and relief payments, bonuses, pensions, and subsidies. In this case there is no service produced in return. The investing and spending power of some is reduced to increase that of others. The effect upon living standards depends upon what type of spending or saving replaced the spending or saving that would have been done by the taxpayers.

Most public finance arises out of international tensions and wars (past, present, and future) and their effects upon the domestic economy. The immediate effect is to reduce civilian living standards, but ultimately such outlays may preserve domestic standards. Inevitably they involve considerable waste of resources. However, the only way to reduce them is to eliminate war and international conflicts.

International developments and tensions have their most serious effects upon federal government finance, but no level of government can finance its activities without affecting other levels. Deficit financing of war brings about a rise in incomes and prices. This increases the

yield of state taxes based upon income and consumer spending, but the cost of state government also is forced upward by rising prices. Local units of government face the same rising prices generated by federal action, but being dependent largely upon property taxation for revenues, they are not able to adjust fully to the higher price level. Furthermore, state and local units of government tend to finance their capital improvements by borrowing during inflationary periods, thereby contributing to inflation at the very time that the federal unit may be adopting counterinflationary policies.

All governmental financing produces benefits for some and adversity for others. It affects the whole pattern of income, saving, spending, and prices. How the money for governmental activities is raised and how it is spent, both have their effects. We cannot look at government independent of the entire economy. We cannot look at any level of government independent of all other levels. The financing of public schools is but one segment of public finance. The public must make choices not only between public finance and private finance, but also between various governmental activities and methods of financing them.

In the decade immediately ahead (1950-1960) federal government finance will marshal a considerable part of the economy for international purposes. Indeed, it is not likely that local government will ever again become the major factor in public finance. Since 1920 state finance has been expanding with the development of nonproperty taxes and now has surpassed local government in importance. Mobility of population, the growing interdependence of the national economy, the growing conflicts in federal, state, and local taxation, and the gradual recognition of the effects of differences in state and local fiscal capacities upon services vital to the national interest, all call for central finance. Local government may continue to assume the responsibility for operations and the performance of services, but revenue raising will become increasingly centralized.

MAJOR FINANCE PROBLEMS OF SCHOOL GOVERNMENT

Consumer standards in public education are reflected in the character and amount of public spending for schools. It is true that the

economic resources of a unit of government are a dominant factor in determining what is spent for schools, but low consumer standards and low economic resources tend to be associated. It is a vicious cycle that causes localities and regions which require education the most to be satisfied with the least of the lowest quality. In a nation characterized by mobility of population, a high degree of economic interdependence, and representative government, the effects of low standards in education cannot be localized. A major problem in education is to create a nation-wide desire for a standard of education everywhere which will foster the well-being of all. The public must realize the potentialities and values of good educational institutions in all parts of the country. To create a demand for good schools and an understanding of the fiscal arrangements essential for securing them, the public should participate to a greater extent in the public school budgetary process.

Public attitudes toward the financing of schools in the decade ahead will be greatly influenced by the effects of war and postwar international developments upon public finance. Antagonism toward high taxes and total governmental spending will affect public education adversely unless the public has strong faith in the values of schooling, understands the fiscal difficulties of school systems and their adverse effects upon the quality of education, and has confidence in the management of public schools. The attainment of maximum economy in operations and the continuous interpretation of the values, needs, deficiencies, and operation of the public schools are essential for public confidence. Retention of confidence in public education and its management is another major problem.

It has been most encouraging to observe the growing public concern over the maintenance and improvement of public schools, especially since the end of the war. Even groups that were once opposed to all public spending have become concerned over the deterioration of the public schools through failure of revenues to adjust to the higher income and price level. Any serious change in economic conditions would cause much of the present concern for good schools to disappear. It is important therefore that as many segments of the population as possible understand and approve the purposes, programs, and methods of the schools.

The postwar era will continue to be characterized by serious fiscal problems for public education that will require public understanding. Decreased purchasing power of money, personnel shortages, greatly increased enrollments, and lack of housing will make it difficult to maintain reasonable standards for educational programs. International tensions will operate to keep federal spending at a relatively high level and the burden of federal taxes will act as a brake upon state and local public spending. The gradual increase in life expectancy and the higher percentage of persons in the older age groups under modern industrial conditions will accentuate demands for public outlays for benefits to older people. The backlog of postponed capital improvements and replacements, especially for highways and streets, will make heavy demands upon state and local finance. Public schools will be only one of the major forces seeking public support. Where choices must be made, convincing evidence will be required to support budgetary requests. An income, wage, and price structure built upon abnormal foreign demand and wartime domestic scarcities is likely to require major readjustments. The readjustment may again involve curtailed or disrupted production, unemployment, reduced income, a shrinking tax base, and a relatively heavier tax burden than we now have in spite of the currently high levels of public spending. If our public school institutions are further weakened during the inflationary period, they will be greatly handicapped during the readjustment or deflationary period.

EXPENDITURE PROBLEMS

Decreased value of the dollar has practically doubled the money outlay for public schools in the past decade (1940-1950). Rapid growth in school population, improvement and expansion of programs, and the replacement and extension of plant will cause public school expenditures to rise still further unless there is a severe drop in income and prices. Unless public school expenditures are understood by the public, public schools again will be put upon the defensive. They must seek additional support during a period when total governmental spending is abnormally high. They must compete with other strongly organized pressures for public funds.

PUBLIC UNDERSTANDING

The primary problem in spending billions of dollars for schools is the retention of public faith and confidence. The public must understand the facts of public school spending. The public must be assured that it is receiving the maximum return for money spent; and such assurance requires honest, competent, and efficient management.

The public and the teaching profession must understand the effects of total public spending on public school spending; the reasons for increased public school expenditures and changes in expenditure trends; the meaning of variations in public school expenditure levels; the principles underlying public school spending; the economic meaning of public school expenditures; and the values, contributions, or returns from public school spending.

Among the factors generally misunderstood by both educators and taxpayers are the effects of changed or different living standards upon public school expenditures; the effects of certain social trends, such as the changed status of women; the relationship between expenditures and objectives or services; the influence of price variations among states and communities; the economic costs of public schooling; and the economic contributions of public schooling.

STRUCTURE OF GOVERNMENT AND CONTROL

The removal of many of the causes of possible diminished faith in public education, its management, and its financing, and the attainment of conditions conducive to adequate support and maximum economy in the future depend largely upon the reorganization of state and local governments. The adaptability of the school system in meeting new needs; facilities for interpretation of the educational program, its costs, and its contributions; an equitable tax system; greater equalization of educational opportunity; prudent management; adjustment to changing enrollments; and efficiency and economy in general require a governmental structure which will foster such objectives. Governmental reorganization is a paramount problem of public school finance.

The allocation of control over education and public school budgets

is one of the most serious problems of public school finance in the United States. If a centralized structure is created for purposes of economy and efficiency, it may sacrifice the potential adaptability of a decentralized structure. If certain centralizing tendencies prevail, the expensive decentralized structure will be retained after the reasons for its existence have disappeared. If public education is a state function, why should it be made fiscally dependent upon local government? Why should states permit extreme decentralization to persist at the expense of children's educational opportunities and the prudent expenditure of state and local tax revenues? What about federal control? What are the respective responsibilities of various units of government in financing public education? How can responsibilities and functions best be allocated? What are the minimum specifications for a satisfactory unit for public school budget-making, control, taxation, and financial management? What principles should govern the relationships among overlapping units? Should schools not under public control be given tax support?

REVENUE PROBLEMS

A trend which is not sufficiently recognized in the literature on public school finance is the declining importance of local government as a taxing unit. The federal government has replaced it as the dominant taxing power, and the states now collect more taxes than local government. This trend has introduced new problems relating to the control and support of public education.

Unless the revenue system can tap the economic vitality of the nation, the public schools will not produce results commensurate with the nation's productive capacity. Unless the revenue system is adequate, stable, and at the same time flexible, equitable, economically sound, and can be easily and economically administered, the public schools will not be able to continue to function as they should. The attitudes of the public toward schools will be conditioned to a considerable extent by the degree of equity found in the tax structure and its administration.

The securing of sufficient revenues to keep the educational enter-

prise functioning at maximum efficiency is an ever-present problem. Among the factors which should be studied as part of the revenue problem are the decline of revenues from the permanent school funds, the inadequacies, weaknesses, and potentialities of the general property tax, possible reforms in the general property tax and its administration, the consequences of too much reliance upon the local property tax, the decreasing importance of local government and even state government as a taxing unit, the possibilities of local nonproperty taxes, potential state tax sources, possible improvements in state tax systems and state aid, the growing importance and potency of the federal tax structure, and federal aid. With these should be included the following: state limitations on and controls over local property taxes, tax exemptions, overlapping tax districts, tax competition among local units of government and among states, organized pressure for tax exemptions and tax favors, organized opposition to taxes, the incidence of federal taxation, lack of tax coördination, competition among governmental services for tax support, the inevitable adverse effects of a given tax or tax reform upon individuals and interests, "earmarking" revenues for specific purposes, and similar factors which affect both the revenues and expenditures of the public schools.

Public school revenues today are derived almost entirely from taxation. Even if the expenditure for public education is defensible economically, a question can be raised concerning the raising of billions of dollars of taxes for this purpose. It is difficult to design a state or local tax system which will not adversely affect economic life, because most producers must compete in a national market, and unduly high state or local taxes may put a locality at a disadvantage in competition with other localities and thereby weaken or destroy the tax base. Federal taxes, on the other hand, can come closer to affecting all producers alike. Hence, it is to be expected that public education will require increased tax support from the federal government in the coming decades. This policy is sound because attainment of most of the objectives of education will affect the well-being of all citizens in all parts of the nation by promoting national survival, democracy, and successful private enterprise.

PROPERTY TAXES

The heavy reliance upon local taxation for schools in the past can be explained by the desire to keep the control and operation of schools close to the people. Local school government generally has been made more directly responsible to the people than have other forms of government. The local property tax is the best fiscal instrument for this town-meeting type of government. However, the limitations of the property tax base and its administrative weaknesses account to a considerable degree for the centralizing tendencies observable in most states. For over a century states attempted to stimulate local property tax support for schools and other purposes of government. Yet inequalities in the capacity of local governments to pay property taxes were increasing with the shift from an agricultural to an industrial economy. Overlapping property taxes by different units of government were creating a heavy burden upon individual properties. The attempt to finance a large part of state and local government through a general property tax in a highly decentralized governmental structure and in an industrial and monetary economy caused many local governments to fail in their attempt to provide the level of schooling demanded in our times; brought into being exemptions, restrictions, and limitations on property taxation which further handicapped local government; and made it difficult for local governments to adjust to the ups and downs of the price structure. Decentralization of cities with the development of the automobile led to the breakdown of the tax in the very areas that had been most able to raise local revenues through this means.

The local property tax is still the major source of public school revenues, although it provides a relatively small percentage of the revenues in a growing number of states. The abandonment of state property taxes for schools and other purposes strengthened the taxing powers of local government, but the relief was slight compared with the service load carried by local units. A more recent development has been the abandonment of county property taxation for schools in states where the county is not the local unit of school government.

prise functioning at maximum efficiency is an ever-present problem. Among the factors which should be studied as part of the revenue problem are the decline of revenues from the permanent school funds, the inadequacies, weaknesses, and potentialities of the general property tax, possible reforms in the general property tax and its administration, the consequences of too much reliance upon the local property tax, the decreasing importance of local government and even state government as a taxing unit, the possibilities of local nonproperty taxes, potential state tax sources, possible improvements in state tax systems and state aid, the growing importance and potency of the federal tax structure, and federal aid. With these should be included the following: state limitations on and controls over local property taxes, tax exemptions, overlapping tax districts, tax competition among local units of government and among states, organized pressure for tax exemptions and tax favors, organized opposition to taxes, the incidence of federal taxation, lack of tax coördination, competition among governmental services for tax support, the inevitable adverse effects of a given tax or tax reform upon individuals and interests, "earmarking" revenues for specific purposes, and similar factors which affect both the revenues and expenditures of the public schools.

Public school revenues today are derived almost entirely from taxation. Even if the expenditure for public education is defensible economically, a question can be raised concerning the raising of billions of dollars of taxes for this purpose. It is difficult to design a state or local tax system which will not adversely affect economic life, because most producers must compete in a national market, and unduly high state or local taxes may put a locality at a disadvantage in competition with other localities and thereby weaken or destroy the tax base. Federal taxes, on the other hand, can come closer to affecting all producers alike. Hence, it is to be expected that public education will require increased tax support from the federal government in the coming decades. This policy is sound because attainment of most of the objectives of education will affect the well-being of all citizens in all parts of the nation by promoting national survival, democracy, and successful private enterprise.

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Transfers of functions to county and state units of government have provided some relief. The increase in centrally collected-locally shared revenues and grants-in-aid has provided substantial assistance.

The schools cannot afford to abandon the locally administered property tax. It is the tax most suited to a locally controlled and operated school system. It provides a relatively stable source of revenues. Property tax reform and improvement in its administration should be promoted. Transfers of functions and central assistance to local government must be fostered. The exercise of local self-government does not require that the major portion of revenues be raised locally. What is required is a tax base which will provide tax leeway to make local adaptations, innovations, and adjustments over and above any centrally financed program.

OTHER LOCAL TAXES

School districts in the United States have been slow to adopt locally administered nonproperty taxes, which have been spreading rapidly in other units of government during recent years. If such taxes provide additional property tax leeway for school government, this may be just as well. However, if the larger units of government, counties and cities, do not reduce their property taxes as they develop other local taxes, school government cannot afford to ignore the potentialities of nonproperty taxes. In the meantime, the effects of intercommunity competition and avoidance of such taxes will be better understood. The problems of increased federal, state, and local tax conflicts will be recognized. Perhaps a sound, local nonproperty tax with a substantial yield which can be administered by small units of government will be discovered out of the experience of school districts in a state like Pennsylvania, which has given school government a very broad grant of taxing power.

STATE TAXES

Inability of all local units of government to maintain an adequate level of schooling through local taxation, restrictions on local taxing power in the stronger units of government, and growing importance of taxes that are best administered by central government have made

state taxation almost as important as local taxation as a source of school revenues. The increase has followed the growth of state tax systems. Although the tendency for a long time was to earmark specific state taxes for schools in order to preserve the fiscal independence of state educational authorities, the tendency now is toward support of schools through general fund appropriations. This makes the schools dependent upon the entire state tax system. Since the state tax system responds more quickly to change in the level of income and prices, public school revenues have made a better adjustment to inflation than they did after World War I.

Improvements in the tax systems and tax administration in all states are needed badly. Nevertheless, if all states had a uniform, sound tax system, a uniform rate structure, efficient tax administration and collection, and allocated a uniform percentage of revenues for the support of schools, many states would not have the resources to maintain an adequate educational system. Economic and tax competition among states prevents some from developing reasonably satisfactory tax systems and educational systems. Mobility of industry and population acts as a restraint upon state taxation. The federal government has usurped the income-tax field and has made serious inroads into consumption taxes upon which the states rely heavily for revenues. The lack of uniformity and the chaotic nature of state taxes on business restrict the interstate commerce upon which our prosperity depends. Constitutional provisions delay state tax reform.

FEDERAL TAXES

The concentration of economic resources, the fact that state and local incomes are derived from national production and markets, mobility of industry and population, and the interdependence of all segments of the economy give the federal government the advantage in taxation. The federal unit has become the dominant taxing unit, replacing both local government and state and local government combined. The economic contributions of local and state school expenditures accrue to other states and localities. It becomes increasingly difficult for state and local units to tax the values they create. Some states, on the other hand, are in an economic position to shift a large part of

the burden of state and local taxes to others. International competition calls national attention to the need for maximizing the productivity, health, and strength of our people, conserving our resources, and increasing the ability of our people to comprehend complex political, social, and economic issues. National markets upon which our mass production depends require universal literacy, a good sense of values, and consumer judgment. Increased federal taxation for schools under these conditions seems inevitable.

QUESTIONS OF FISCAL POLICY AND RELATIONS AMONG GOVERNMENTAL UNITS

The foregoing trends imply a growing concern on the part of central governments over the control, operation, and financing of public education. Part III will be devoted to an analysis of central policy with emphasis upon the retention of the advantages of decentralization while attempting to obtain the advantages of central governments in revenue raising and economy in operations.

DECENTRALIZATION

Extreme decentralization in school district structure practically mandates extreme inequalities in educational opportunities, short-sighted policies, unskilled management, a wasteful use of personnel and materials, inertia, and inability to adapt to changed conditions. Overlapping units of local government lead to conflicts of jurisdiction, undue complexity, waste, and overlapping services—for example, legal, tax collection, purchasing, accounting, maintenance, plant, treasury, and borrowing. If certain controls, budgetary for example, are transferred from school districts to some other unit of government, the school districts become an almost useless appendage of local government, the school boards having to assume responsibility for policies determined by another legislative body. Indiscriminate extension of central controls, on the other hand, often retains the expensive machinery of decentralized government without obtaining the potential adaptability or flexibility inherent in local home rule. The result is centralization with the disadvantages of both centralization and decentralization as shown in Part III. Extreme centralization of struc-

ture, especially for a very large state or for the nation as a whole, provides an opportunity for minority groups or pressure groups to determine policies and control education, stifles initiative and flexibility, weakens public interest, neglects local problems and conditions, and makes all sections suffer the effect of any incompetence in central management.

CONTROL

Reallocation of control by itself accomplishes very little; control must be accompanied by expert management on all levels. Assuming that this precaution has been taken, the following recommendations regarding control have been made: (1) In small states serious consideration should be given to complete state support, control, and operation of education, taking into account the strengths and weaknesses of large-city school administration. As long as state school management is subject to the control of people, it is just as democratic as local management. (2) In large states the structure of all local government should be simplified, large units of school administration should be created, certain state-wide controls and safeguards should be extended, and certain educational functions and services should be provided directly by the state government. Among the controls which may be extended are: debt limits; supervision of the affairs of school districts in default on their obligations; temporary control in districts where local administration has failed to function effectively; formulation of standards for the guidance of local officials; enforcement of minimum standards as to school attendance, teacher preparation, merit appointments, tenure, and salaries; establishment of uniform budgetary procedures and accounting systems; requirement of periodic reports and publicity; and provision for outside postaudits and preaudits (limited to the legality of budgetary items) by state education departments. Among the functions which may be supported and administered directly by the state may be included transportation, architectural and engineering services, state borrowing or revolving funds for the financing of capital improvements, insurance, purchases according to specifications accepted by local management, teacher education, advanced technical education, field services in technical aspects of school

management, research, and the administration of schools in sparsely settled, decadent, or submarginal areas. (3) No matter whether schools are administered by a state agency, local units, or both, certain coöperative arrangements should be worked out with other units of government in such matters as taxation, budgets, purchasing, capital outlays, borrowing, legal services, accounting, treasury, libraries, health, recreation, and other welfare provisions.

CONFLICTING POLICIES

Most states are following conflicting policies relative to the financing of public schools. At the one extreme is the attempt to maintain minimum service levels with hardly any central support. This policy means standards tailored to the weakest units and the use of a large part of local taxing power to finance matters of state-wide concern. There is little or no tax leeway for the exercise of local initiative. At the other extreme is the almost complete state financing of state requirements which should release most local taxing power for local decisions, but most such states have placed restrictions or central controls upon local spending or taxation which leave little to local policy determination. In between there are a variety of combinations. Some of these attempt to promote the maintenance of minimum service levels through tax sharing or small per-capita grants-in-aid, which mean almost as wide differences in provisions as there are differences in local fiscal capacity. Others attempt to equalize the local tax burden for support of state mandates and standards, but use so much of the local tax base for this purpose that leeway for self-government is virtually destroyed. Most states still use some central support to promote state purposes which restricts local initiative and tends to direct central support to the fiscally able units. Many states have taken over control of decisions which are vital to effective local operation while leaving to local control matters which could be centralized without any significant loss to local government. All states have retained the decentralized structure for the operation of schools, but most of them have adopted controls, fiscal policies, or practices which further weaken local government for schools. Harmonizing central fiscal policies is a fundamental need in most states.

HARMONIZED POLICIES

Probably the ultimate solution to the problem of central-local fiscal relations in school government lies in a combination of central and local operation and finance. Educational institutions requiring specialization, serving an area larger than city, county, town, or village might be operated and financed by the state. Public elementary schools and most public high schools probably should be locally operated as proposed in Chapter XV. However, state governments might well assume certain expenditures and operations even in these, such as employer contributions to retirement, transportation, insurance, and debt service, at least the amount required to carry out central purposes. Many controls now assumed by some states, such as budgetary review, selection of textbooks, examinations, and curriculum requirements, should be returned to local control. The structure of government should be revamped to insure the successful operation of local self-government. A great deal of mandatory legislation could be repealed if enough central finance were assured to operate good schools. Any state interested in preserving local government must be willing to tolerate a degree of waste, inefficiency, and unwise spending in individual units. The only sound method of eliminating this is to improve local management and to provide competent leadership and technical assistance on the state level.

UTILIZING LOCAL TAXING POWER

Some states may have gone too far in neglecting local support for schools. Instead of rehabilitating the local property tax base and encouraging its use to the fullest extent and supplementing it by other local taxes where this is possible, they have been moving toward 100 percent central support. In a small state like Delaware this may not be wholly unwise. However, in a state like Washington where local support has become stagnated through tax limitation and fiscal policy, the loss may prove serious. All such states lose the stability inherent in the property tax base and their school revenue systems will be subject to abrupt decreases if the level of income and the price level drop. Furthermore, without taxing power, local government for schools

loses its vitality. The people lose the benefits of active participation in government. The schools lose the advantages which come from public understanding and acceptance of educational policies and programs. The center of gravity is shifted from the citizens locally to remote central agents and agencies. Vital local control of schools and adequate provisions for schools requires substantial central support, but it also requires local taxing power and a local tax base which will enable localities to go beyond any centrally financed provisions.

MANAGEMENT PROBLEMS

The collection, custody, and expenditure of over \$4 billion annually places a heavy responsibility upon public school management. Central governments which are providing nearly half the revenues are concerned with the use made of money. Unless central controls are to be extended, local management must meet the challenge. States must realize that the only sound way to improve the spending of school money is to take steps to improve management on the operational level.

The prudent handling and economical expenditure of all public school funds and the prevention of unnecessary expenditures are essential for attaining maximum educational returns, for securing maximum equality of educational opportunity and adaptability, and for retaining public confidence in the public schools. Professionally competent and efficient management can provide the most services and make the best adaptations to new needs with the least increase in revenues. Such management establishes safeguards, controls, procedures, and techniques for obtaining the maximum utilization of all personnel and property; for obtaining and protecting all revenues or income to which the school system is entitled; for employing, retaining, and improving-in-service the most competent and efficient personnel; for realizing every potential economy in the operation and functioning of the system; and for making the most prudent purchases possible. However, in management it is extremely easy to overelaborate the machinery and routine and so defeat the ultimate objective—the careful planning and wise spending of public school revenues. It also is easy to overemphasize the purchasing program and to give insufficient at-

tention to personnel, the major item of expenditure in a school system. No problem is more deserving of emphasis in public school finance than that of prudent, efficient, and economical management.

The wise spending of public school funds involves a great many difficult and oftentimes baffling problems. What are the respective responsibilities of state and local units of administration? Is state action necessary to achieve maximum economy? What kind of action? What can be accomplished without state action and coöperation? What are personal services worth? What personnel policies and salary and wage policies are necessary to achieve the results desired? How can maximum use be made of available personnel and materials? What are the major economies possible in local management? How can school expenditures be adjusted to fluctuations in income and prices?

Responsibility for public school budget-making (whole or part) may be allocated to the federal government, a state, a municipality, or a special district or corporation. Yet the extent of educational provisions made, the maximum returns for money spent, the adaptability of the school system, public understanding of the needs and contributions of public education and the reasons for certain activities and expenditures, the balance between public school expenditures and expenditures for other governmental services, the securing of needed revenues, and prudent and economical management will be governed not by the allocation of responsibility alone, but by the background, professional skill, thoroughness, competence, and careful planning and management revealed in the public school budget. Budget-making is one of the most fundamental problems in public school financing. Centralization, federal aid, equalization schemes, and new tax sources will not assure better educational opportunities and continued public support unless the budgetary process is functioning properly.

Budget-making involves such problems as these: What are the relative values of public school activities and other governmental activities competing with them for support? What are present and future financial implications of educational objectives and policies? What do social and economic trends mean for public education and its financing? How does a given schedule or program affect expenditures? What does a given procedure or method of attaining an objective cost?

How does it compare in effectiveness with other methods? What does a given activity cost? What are the educational provisions which are not being made and why? How do they compare in value with certain activities now carried on? How much revenue can be secured from federal, state, and local sources this year? Next year? Five years from now? What must be done locally to increase revenues from federal and state sources?

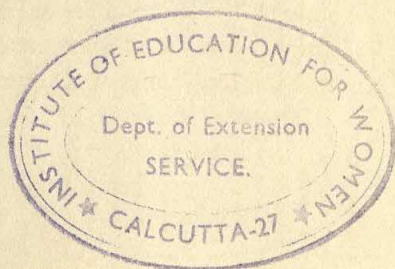
SUMMARY

Inflation resulting from war and postwar international tensions is causing the most serious financial problems of public schools. The threat of deflation must be recognized in seeking solutions to current problems. The United States has the economic capacity to provide and support a good system of public education regardless of the ups and downs of dollar values. However, the system of public school finance must reach the economic vitality of the nation without hampering it before good schools will become available for all American children.

The federal government has replaced local government as the dominant taxing power in the United States; the state government also has moved ahead of local government in tax collections. These trends reflect economic trends; yet the support of education in many states still is derived largely from local taxation. Public education has found it increasingly difficult to marshal sufficient support under existing revenue institutions. Yet the shift to centrally collected sources of revenues that will reach the economy of the nation has serious implications for the control and management of public schools. Few, if any, states have evolved a rational basis of central-local relationships in school finance.

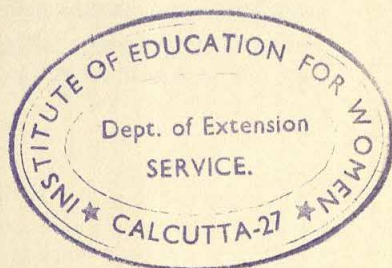
The major problems of public school finance are (1) to understand and interpret the financial facts, problems, and principles of public education; (2) to strengthen the structure for local government and operation of schools; (3) to improve local financial management of public schools regardless of source of support; (4) to rehabilitate the property tax base for local support and to supplement it wherever possible by locally administered nonproperty taxes; (5) to secure a more rational division of operational responsibility and control among central and local units of government; (6) to supplement local and state

resources by centrally collected revenues sufficient to provide reasonably adequate educational services for all children; (7) to provide a sound system of federal, state, and local taxation for the support of public schools as well as other governmental services; and (8) to attain methods of apportioning central support for public schools which will be in harmony with the principles and policies underlying American government and public education.



..... Part One

PUBLIC SCHOOL SPENDING



Governmental Spending and Public School Expenditures¹

Public expenditures for schools are but one aspect of governmental spending. They can best be understood when treated against the background of total spending by government. What is spent for schools depends in part upon expenditures for other purposes and vice versa.

When most spending was done by local units of government, choices between spending for schools and other functions tended to reflect direct popular will. Public school spending was a relatively important part of governmental activity. However, when the federal government replaced local government as the major spending unit, public school spending became less significant in the total and choices had to be made by representatives remote from the people. The willingness of taxpayers in state and local units to spend money for schools is influenced by total spending by all units. In the final analysis, spending by central governments is financed by taxes upon citizens in local units of government.

ANALYSIS OF PUBLIC SPENDING

Public understanding, appraisal, and intelligent choice in governmental spending requires a functional breakdown of total governmental activity. Yet the analysis and comparison of expenditures for various governmental purposes involves three very serious limitations. In the first place, most governmental activities serve several purposes

¹ Based upon A. J. Burke, *Defensible Spending for Public Schools* (1943), chs. II, III, IV, and VI.

and all classifications are arbitrary. Secondly, most services are provided by overlapping units of government, or more than one unit participates in their financing. And finally, the compilation of statistics is made difficult and inexact because of differences in definitions, accounting, records, and reports.

DEFINING FUNCTIONS

There are few governmental activities which promote only one purpose. Most of them have multiple objectives, many of which are the same as those of some other governmental service. Public education, hospitals, public health, sanitation, water supply, recreation, and public assistance to the disabled and unemployed are all classified as separate activities, but they all promote health. Education, police protection, fire protection, traffic control, highways, correction, health, sanitation, water supply, and public assistance, all help protect life. Education, police protection, fire protection, planning, zoning, public utilities, correction, and public assistance, all help protect property and enhance its value. Education departments and public schools promote industry, agriculture, and commerce; departments of industry and labor, agriculture, and commerce carry on educational activities and promote other objectives of education. There are no generally accepted categories for classifying public expenditures.² Hence, any separation of governmental functions is arbitrary and misleading. If education is separated from other governmental activities for purposes of comparison, due recognition must be given to the many purposes of government promoted by public education.

OVERLAPPING UNITS

Public schools are sometimes financed by federal, state, county, school district, and municipal authorities; and each of these units supports independent educational activities. The same is true of most other governmental activities. In analyzing expenditures in any unit of government, the proportionate share of the expenditures of activities carried on by overlapping units must be added to the expenditure for those activities in the unit under consideration. The fact that public

² See H. L. Lutz, *Public Finance* (3d ed., 1936), p. 33.

education statistics are gathered by a state agency, which issues totals for the state and its constituent school districts, has often resulted in misleading comparisons. The approximate total expenditure for public schools in a municipality often is compared with only part of the city expenditure for protection, health, relief, or some other service, a large part of which is provided by some overlapping unit of government. The expenditure of the other units is omitted in the comparisons. Clark summarizes the difficulty as follows: "for it is soon found that cost may be paid by two or more tax divisions, or the two divisions may support different parts of the same function. For instance, highways may be built by the state or by the town, or they may be built by the state and the town working together, or by the state, county or town in other combinations."³

ACCOUNTING

The third difficulty is largely a statistical one. Although agreement upon a general classification such as education or protection may be reached, there is no assurance that all units of government include the same expenditures under each. Debt service for schools may be included under education or placed in a separate, general municipal category called debt service. Certain health services may be charged to the school accounts or they may be classified under public health. The care of the physically handicapped may be charged to education, to charities, or to public health. Lighting school buildings may be included under education or general government. Pensions for school employees may be charged under education or under fixed charges for the entire municipality. Furthermore, no matter what the classification, lack of uniformity in definition decreases the reliability of the statistics on expenditure. Differences in the fiscal year, extreme variations in recording, accounting, and reporting expenditure data, especially in the smaller units of government, also create limitations.

USE OF NATIONAL TOTALS

If we assume some arbitrary, uniform classification of governmental expenditures, national totals are most satisfactory for showing the

³ H. F. Clark, *The Cost of Government and the Support of Education* (1924), p. 4.

proportion of total expenses devoted to each class. The limitation of overlapping service areas is automatically removed from such totals. The figures, it is true, are no more valid and reliable than local practices will allow them to be. Nevertheless, they present a fair approximation of the expenditures for various categories of service, providing allowance is made for grants, transfers, subventions, or loans made by one unit to another.

PUBLIC SCHOOL EXPENDITURES

Present accounting and reporting practices make it practically impossible to get reliable estimates of total spending by federal, state, and local units of government for educational purposes. Each level operates and finances educational institutions and activities, but these often are operated as part of another function. This book, therefore, will deal largely with expenditures of locally operated public school systems regardless of source of revenues.

Any estimate of total governmental outlay for education at the present time is inflated by two factors: veterans' benefits and education in connection with national defense. In 1949 these two federal outlays alone about equalled the expenditure for locally operated public schools (about \$4 billion). Aside from these, total governmental expenditures for education after allowing for grants is estimated at about \$100 million on the federal level, \$600 million on the state level, and \$4.6 billion on the local level—a total of \$5.3 billion. The estimate includes in addition \$4.5 billion for locally operated public schools: federally operated institutions, agencies, and services; state-operated institutions, agencies, and services, including higher education and special institutions below college grade; and locally operated higher education institutions and institutions below the college level not administered by school governmental units. These are enumerated in Chapter XV.

TRENDS IN GOVERNMENTAL AND PUBLIC SCHOOL SPENDING

Increased governmental spending is a characteristic of modern, industrialized, nationalistic states throughout the world.⁴ Total govern-

⁴ Lutz, *op. cit.*, p. 41.

mental spending in the United States between 1910 and 1950 rose from less than \$3 billion to over \$50 billion. It represented less than 10 percent of the national income in 1910 and around 25 percent in 1950. Public school expenditures have not increased at the same pace. They rose from \$426 million in 1910 to about \$4.5 billion in 1950. The percent of total spending for public schools dropped from 15.0 to less than 9.0 in 1950. The percent of the national income represented by public school outlays increased from 1910 to 1935, but decreased after that.⁵

TABLE 1. Total Governmental and Public School Expenditures in the United States, 1910-1950

Year	Expenditures in Millions		Percent of Total for Public Schools	National Income in Billions ^c	Percent of Income Represented by	
	Total Federal, State, and Local ^a	Total Public School ^b			Total Gov'l Exp's	Public School Exp's
1910	\$ 2,834	\$ 426	15.0%	\$ 30.4	9.3%	1.4%
1915	3,709	605	16.3	37.0	10.0	1.6
1920	11,132	1,036	9.3	69.5	16.0	1.5
1925	9,476	1,946	20.5	73.7	12.9	2.6
1930	11,375	2,317	20.7	75.0	15.2	3.1
1935	16,717	1,845	11.0	56.8	29.4	3.2
1940	18,076	2,344	13.0	81.3	22.2	2.9
1945	107,172	2,680	2.5	181.7	59.0	1.5
1950 ^d	52,000	4,500	8.7	210.0	24.8	2.1

^a Data for 1910-1915 from Mabel Newcomer, *Financial Statistics of Public Education in the United States, 1910-1920*, pp. 11-13; 1925-1945 from *The Economic Almanac, 1949*, p. 136.

^b From *Biennial Survey of Education*.

^c From *The Handbook of Basic Economic Statistics, 1949*, pp. 10-11 and supplements.

^d All 1950 figures are estimates. The figure for public schools is approximately the same as that given in the *New York Times*, Jan. 9, 1950, p. 16.

FUNCTIONAL TRENDS

War and its legacy of debt, veterans' benefits, economic dislocations, and international tensions account for most governmental spending. Over half of present expenditures can be traced to this source; and it is probable that such expenditures will account for a major portion of governmental outlays for a long time. There also has been an accelerating growth of spending for economic and welfare purposes. These two together have come to exceed public school spending in fiscal

⁵ See Table 1.

importance. Although relief and welfare outlays individually are now less than those for public schools, they may again exceed them. Public works, including highways, have ranked with public schools. The older functions of government—protection of persons and property, health and sanitation—like education (a very old function) have not shown such a rapid expansion. None of them represents a very large part of total expenditures.⁶

TRENDS BY UNITS OF GOVERNMENT

Traditionally the dominant spending unit in the United States has been local government. Except during war periods this was true until about 1933. Since then the dominant spending unit has been the federal one. Before the war federal spending was about double the local and since the war it has been many times greater. Although the states rank second as tax collectors, local government still ranks second in spending. This is due to the large amounts of state taxes shared with localities or transferred to local governments as grants. In 1949 about 70 percent of governmental spending was federal after excluding grants to states; about 12 percent state after excluding grants to localities; and the remainder local.⁷

The last war brought about a phenomenal rise in federal governmental expenditures. Between 1940 and 1945 federal expenditures rose from a little over \$8.5 billion to about \$97 billion. Since 1945 they have dropped to about \$35 billion (1949). During the war years state spending decreased slightly from about \$3.4 billion in 1940 to about \$3.2 billion in 1944.⁸ However, since 1944 there has been a sharp upward trend in state spending.⁹ It amounted to about \$6.0 billion in 1949. Local expenditures were reduced from about \$5.9 billion in 1940 to \$4.7 billion in 1942, at which level they probably remained during the war. Between 1945 and 1949 there has been a considerable increase in local spending to over \$10 billion.

⁶ H. M. Groves, *Financing Government* (1939), pp. 512–513, and Tax Institute, *Total Government Expenditure in 1947* (1948), pp. 4–5.

⁷ *The Economic Almanac* 1949, p. 136, and *Survey of Current Business*, July, 1949, p. 13.

⁸ Based upon The Tax Foundation, *Facts and Figures on Government Finance* (1946–1947), p. 15.

⁹ *The Book of the States*, p. 257, and *New York Times*, Aug. 7, 1949, p. 8.

FUTURE SPENDING

The future of governmental spending depends upon a great many variables such as international developments, the expansion and utilization of productive capacity, trends in income and prices, fiscal policies, political developments, and employment opportunities in private enterprise. The outlook is for spending at the rate of at least \$50 billion a year, largely because of expenditures for military purposes and European recovery. The most optimistic estimates fix future total spending at between \$40 and \$45 billion a year.¹⁰

CAUSES OF GROWTH

Writers on public finance advance numerous reasons for the continuous expansion of governmental expenditures in modern nations. Groves stresses six causes: (1) war and its legacy of debts, pensions, and vast expenditures for destruction; (2) urbanization and its requirements for increased public services and utilities; (3) concentration of business and related problems; (4) development of democracy; (5) advancing culture or civilization; and (6) changes in the predominant attitude toward government, the tendency to rely upon government rather than to fear it.¹¹ Lutz emphasizes the industrial revolution, the advance in science and inventions, and the wave of humanitarianism.¹² He also attributes part of the increase to territorial expansion, population growth, changing price levels, pressure groups, public apathy, politics and the spoils system, defects in governmental organization and procedure, improper allocation of functions and resources, and diffusion of administrative and financial responsibility.¹³

EVALUATION OF GOVERNMENTAL EXPENDITURES

There are groups which regard any increase in governmental spending, with the possible exception of defense and protection outlays, as an evil; others regard any increased public expenditure as a good. The basic conflict here is an ideological one. The first group regards every

¹⁰ E. D. Allen and O. H. Brownlee, *Economics of Public Finance* (1947), p. 25.

¹¹ Groves, *op. cit.*, pp. 512 ff.

¹² Lutz, *op. cit.*, pp. 26 ff.

¹³ *Ibid.*, pp. 75 ff.

increase in governmental activity as a step away from freedom toward collectivism, socialism, or absolutism; the second group regards every increase in public outlays as a step away from anarchistic individualism toward a better social order. Neither position can be proved or disproved; each is a matter of faith.

Both extremes ignore a fundamental characteristic of democracy—compromise.¹⁴ In a democracy the scope of governmental activities may vary according to conditions, needs, and the lessons of experience. In a democracy governmental spending is not evaluated as a whole, but each separate instance of governmental spending is evaluated by itself. How does each work out in practice? Can a specified activity be carried on best under private or public auspices? Roads or bridges operated under private enterprise have given way to publicly financed highway systems. Why? Public lands have been given to private persons and groups for development and exploitation. Why?

ECONOMIC CONSIDERATIONS

In recent years there has been a tendency to evaluate instances of governmental spending solely in terms of economic criteria. The substance of the argument is that it makes no difference whether a given human activity is financed by government or by private initiative. All expenditures, public or private, must be referred to the satisfaction of human wants. The real test is economic efficiency and the quantity and quality of service rendered in relation to its cost. Expenditures must be judged by their productivity. If government produces the most and best service at the least cost, governmental spending is to be preferred to private spending. If the reverse is true, private spending is to be favored. Graft and waste in private spending are as serious as graft and waste in public spending. Private or public spending which wastes valuable natural resources, ruins the health and productivity of the people, or directs an undue proportion of effort into nonessential life activities is to be condemned. No nation can build pyramids to the exclusion of raising enough food for its people—either under public or private enterprise.

Productivity is not an easy criterion to apply. Opponents of govern-

¹⁴ *Ibid.*, pp. 23 ff.

mental spending are inclined to classify most governmental activities as nonproductive and to assume that most private spending is productive. They assume that all governmental spending curtails the consumption of material goods and services and hence curtails private production. Such thinking ignores a number of important facts. (1) A good deal of governmental spending, such as aid to farmers, the soldiers' bonus, interest payments, pensions, and relief payments, is merely a transfer of purchasing power from one class to another. Such expenditures do not necessarily reduce the volume and patterns of consumption and production; they may even increase consumption and production. The effects depend upon a host of related factors.¹⁵ If such expenditures eventually discourage individual effort, productive work, creation of the means of production, and employment, then they become nonproductive. (2) Many governmental services, although they create no immediate values in exchange in the contemporary market, do enhance the ultimate wealth of the people—health services, conservation of natural resources, research, highways, and hundreds of other services of government create wealth. Much of the profits, salaries and wages, dividends, rents, and interest derived from private enterprise and exchange in the markets of today are due to governmental outlays in the past. Can such services of government be classed as nonproductive? (3) There are certain kinds of public spending which decrease public spending for other purposes and release private spending for more productive and satisfying purposes. Playgrounds, laboratories and clinics, vocational education, fire inspection and preventive measures, ethical education, sanitation and public health, health education, literacy programs, social work, slum clearance, community planning, and traffic control have implications for private charities, family burdens, insurance costs, police protection, medical care, public and private debt, corrections, and wasteful private expenditures—for example, wasting millions of dollars in gasoline consumption in congested traffic.

Proof that a public expenditure is productive does not establish it as a legitimate function for government to perform. Has the expendi-

¹⁵ See W. J. Shultz, *American Public Finance* (1938), pp. 36 ff., and Allen and Brownlee, *op. cit.*, ch. I.

ture been of greater social value than the private expenditure which it displaced? If it has, why should the state perform the service and not some private agency? Again the issue returns to the imponderable and immeasurable in many instances, and faith and philosophy return as yardsticks. So Shultz concludes: "There are no canons which determine what the State can or cannot do, for what purposes it should or should not expend the funds raised by taxation and borrowing."¹⁶ Lutz reaches practically the same conclusion.¹⁷

OTHER CONSIDERATIONS

Certain practical considerations also must be taken into account in making a choice between public and private spending. There are many activities essential to the welfare, improvement, and perpetuation of civilization in which there are no immediate profits or return to be gained. The benefits, once they accrue, may be diffused widely, not only in one generation but in succeeding generations. Those who invest the money or make the expenditure may not be the ones to reap the greatest returns; the benefits are social. Many of these activities require huge capital outlays. Naturally private citizens or groups of private citizens generally are not stimulated to provide such services. Conservation, public health, preventive medicine, protection, defense, certain types of education, and certain types of research are examples of such services which probably must be financed by government. Furthermore, there are services which might be provided by private enterprise but which the public finds it more convenient to finance publicly. Toll roads and toll bridges have always proved unpopular.

LIMITS TO PUBLIC SPENDING

It is reasonable to assume that certain "consumption" expenditures of government as contrasted with "transfer" expenditures might reach a point where they would reduce the standard of living, the capital, and the economic resources upon which future living standards depend. Adequate health, education, food, clothing, shelter, and protection are elements in any adequate standard of living, and as far as that

¹⁶ W. J. Shultz, *op. cit.*, p. 27.

¹⁷ Lutz, *op. cit.*

standard is concerned it makes little difference whether they are provided at public or private expense. The only requirement to be met is that of reasonable balance. No one category should be elaborated and expanded to the detriment of others. There are public expenditures, however, which might conceivably reduce these essentials of a reasonable standard of living—for example, vast armament programs, long destructive wars, and large-scale public-works programs not producing consumer goods and services entering into the standard. Furthermore, it is possible for the prices paid for all governmental services to get out of line with other prices, thereby indirectly reducing living standards, through their effects upon other prices. Neither of these potential ways in which public spending can reduce living standards is observable except during a war or a prolonged period of economic depression.¹⁸

Generally speaking, the precise economic limits to national or state governmental expenditures are not known. The limits depend upon a number of very elastic factors: the quality of private initiative, the efficiency of government, the extent to which governmental services merely replace services once performed under private initiative, the extent of "transfer" expenditures, the economic resources from which the state receives support, the productivity of certain governmental expenditures, psychological attitudes and habits of the people, and other factors.¹⁹ Abrupt changes in expenditure patterns, of course, can cause temporary economic dislocations, but the flexibility of economic institutions and human behavior permits gradual adjustment to a variety of combinations of public and private spending. There are wide variations among states and nations in the relationship of public spending to total income.

ECONOMICS OF PUBLIC SCHOOL SPENDING

The reported outlay for public schools does not represent the true cost of public schools. Indeed, it represents a very small part of the cost. Nor do expenditure facts show the true nature of outlay—the investment in human beings, the creation of markets, and the contribution to productivity.

¹⁸ See Shultz, *op. cit.*, p. 25.

¹⁹ See Lutz, *op. cit.*, p. 24.

ECONOMIC COSTS

The greatest cost of public schools—the release of twenty-five to thirty million children and young persons from production—has become an accepted fact. This outstanding achievement of the American economy is hardly ever considered. Yet without industrialism, mechanized agriculture, specialization, division of labor, and resulting high living standards this could never have been done. Since these very economic factors have forced children out of the labor market, it is impossible to place a dollar cost upon the release of children from production. Theoretically at least, it would run over \$20 billion at present prices—at least \$10 billion for the potential value of hand labor and at least \$10 billion for goods and services consumed by pupils attending school.

Reported public school expenditures (\$4.5 billion) represent a small part of the cost, the release of some one million adults from other productive work to serve as teachers, custodians, and other school employees plus a relatively small consumption of other goods and services. In an economy with normal unemployment of over a million and limited economic opportunities for women, the release of a million adults (about 80 percent women) for school service is not a very significant cost. If they were unemployed they would consume goods and services, and the difference between relief standards and the living standards possible in school service is the true economic cost involved.

THE INVESTMENT

Civilized life, national survival, stable and effective government, high living standards and material wealth, and personal happiness and well-being require the right kind of education no matter what form of government or economic system a nation has adopted. Democracy and a private-enterprise economy, however, place a high premium on education for all. The survival of democracy requires the maximum development of individual citizens, widespread knowledge on fundamental issues, great emphasis upon personal integrity and human relationships, and ability to think independently because the decisions

and behavior of each citizen affect the rights and welfare of all citizens. Under a private-enterprise economy the individual consumer is supreme. His decisions determine what is to be produced, who is to produce, and what values are to prevail. Private enterprise like democracy presumes widespread knowledge upon the part of individual persons. The willingness of individual men to work for remote objectives, their judgment as to how much to save and in what to invest, their decisions as to occupation and vocational preparation, their decisions as to buying and selling or expending income, and their decisions on other economic matters such as tariffs affect the peace and prosperity of all. Individual knowledge, ability to communicate with others through language and numbers, health, good citizenship, character, maximum development of individual capacities, ability to think, a sense of values, consumer judgment, and vocational efficiency are essential if a democracy and a free-enterprise economy are to function satisfactorily.

Survival of our nation in a world of powerful conflicting national groups; the internal security and stability in government and human relationships essential for survival and economic prosperity; the maintenance of a reasonable balance between material, human, and cultural values (also essential for survival and economic well-being); the perpetuation of democracy; and the continuance and success of a private-enterprise economy justify every objective toward which the public schools are working. Health, safety, command of the tools of learning and communication, civic competence, character development, discovery and development of a sense of values, preparation for home and family life, consumer competence, and vocational competence, all can be justified. To the degree that they can be attained through public education will our nation, culture, democracy, and private-enterprise economy continue to serve our welfare.²⁰

ECONOMIC RETURNS

It is not easy to determine the past contributions of public schools to all of the foregoing objectives. However, their contributions to literacy are well known. Without literacy the national markets upon

²⁰ Burke, *op. cit.*, ch. VI.

which mass production and the creation and distribution of other goods and services depend would not exist. Without literacy the semi-skilled and skilled workers upon which our production depends would not exist. Take away universal literacy alone and the American economic system would collapse.

The intricate capital goods and organizations which make possible American production are the products of accumulated knowledge and skill (professional, scientific, engineering, managerial, and technical). Most of the minds capable of creating and using the techniques of our economy have received their apprenticeship in the American public school system. By releasing children from production for a century or more, the United States has made possible greater life-span economic returns from its population.²¹

ECONOMIC LIMITS

Public education is only one of many important life essentials, including food, housing, clothing, medical attention, transportation, recreation, and cultural satisfactions. Each of these is vital; no one should be curtailed at the expense of others. However, as long as we are spending less than 3 percent of our consumer income on public education (no more than is spent on advertising material goods), over 5 percent of our income on alcoholic beverages, and nearly as much on tobacco and personal appearance as upon education, there is no danger of expanding education at the expense of other important life activities. Indeed, there is greater danger of our expanding transportation at the expense of education and other essentials. We are spending about 10 percent of our consumer income on transportation,²² much of which is nonessential, as the war has proved. The war also has shown that there is enough waste in our expenditures for food, clothing, and shelter to more than pay for education. Effective consumer education in the future probably can liquidate the cost of public education just as literacy has done in the past.

²¹ Educational Policies Commission, *Education and Economic Well-Being in American Democracy* (1940).

²² *Survey of Current Business*, July, 1949, pp. 23-34.

REASONS FOR INCREASED PUBLIC SCHOOL EXPENDITURES

Except during depressions, public school expenditures in the United States have shown a steady upward trend. As shown in Table 1, they have practically doubled every decade except for the period 1930–1940. They reached the lowest level in 1934 when the figure was \$1.7 billion, a decrease of about \$600 million from the 1930 level or about 26 percent below. By 1940 they had again reached the 1930 level. Now they are almost double what they were in 1930. What are the underlying causes of this upward trend?

Four groups of factors account for the steady rise in school outlays: (1) increased enrollments, longer terms, and improved attendance; (2) changes in the educational program and educational standards; (3) changes in prices and the value of the dollar; and (4) rising living standards and the improved economic status of women.

ATTENDANCE FACTORS

The growth in population increased the number of children of school age. Industrialization, urbanization, mechanization of agriculture, and the increasing proportion of adults in the population all operated to take children out of the labor market and increase school enrollments. New occupations came into being in which schooling became a prerequisite for advancement. Urbanism, automobiles, and improved highways made it easier for children to attend school for longer periods with greater regularity. Rising living standards, improved health and sanitation services and measures, and improved school programs and practices tended to make for better attendance. The employment of women created a demand for school facilities for younger children. Between 1870 and 1930 such factors brought about a fourfold increase in enrollment, an increase of over 40 percent in the percent attending daily, and an increase of over 80 percent in the average number of days pupils attended school.²³

Over half the increase in public school expenditures between 1910 and 1950 can be traced to attendance factors. Total expenditures be-

²³ Burke, *op. cit.*, pp. 40 ff.

tween these two dates increased 956 percent according to Table 2; but the expenditure per day increased only 450 percent. This means that an increase of 506 percent can be traced to larger enrollments, improved attendance, and longer terms. Elementary enrollments went up 22 percent and secondary enrollments over 500 percent. Attendance showed a 78 percent growth; and the average number of days attended rose 35 percent, as shown in Table 2.

TABLE 2. Some Factors Accounting for Changes in Public School Expenditures, 1910-1950

(Index Numbers 1910 = 100)

Year	Total Public School Ex-penses ^a	Public School Enrollment ^b		Total At-tend-ance ^b	Aver. No. Days At-tended ^b	Outlay per Pupil		Con-sumer Prices ^c	Nat'l In-come per Cap-ita ^a	Aver. Wkly. Wages ^d	Aver. Salary of Teach-ers ^b
		Elem.	Sec.			Per Year ^b	Per Day ^b				
1910	100	100	100	100	100	100	100	100	100	100	100
1920	243	115	244	127	107	193	188	205	198	265	180
1930	544	126	489	166	127	327	298	171	185	233	293
1940	550	112	733	172	135	318	286	143	184	252	297
1950 ^e	1056	122	633	178	135	590	550	240	433	500	560

^a Derived from Table 1.

^b From *Statistics of State School Systems*, Table 1.

^c From *The Handbook of Basic Economic Statistics 1949*, pp. 106-107; the 1910 figure is the figure for 1913, the first in the series.

^d *Ibid.*, pp. 34-35, average weekly earnings in all manufacturing industries.

^e All 1950 figures are estimates.

SERVICE FACTORS

Attendance changes had a more profound effect upon public school expenditures than the foregoing data indicate. Between 1910 and 1950 the big rise in attendance occurred in the secondary schools, where the program is more differentiated and consequently more expensive.²⁴ However, it is a fallacy to consider this factor a major cause for increased spending. If children are in school, they must be taught something. If pupils are not enrolled in one curriculum or course, they increase the enrollment in other curricula or courses. Increased offerings significantly increase expenditures only to the extent that they increase enrollment or reduce pupil-teacher ratio. It is true, of course, that certain new services have called for highly qualified per-

²⁴ *Ibid.*, pp. 44-45.

sonnel who can demand higher salaries than the untrained teachers of seventy years ago. It is also true that certain new services require special physical facilities which increase expenditures somewhat.

Two twentieth-century developments in education have had a revolutionary effect upon public school expenditures: (1) attention to individual differences and (2) wider objectives. The more schools attempt to serve the individual pupil—the physically handicapped, the bright, the dull, the nonverbal, the slow, the fast, and others—the higher will be the per-pupil expenditures. When schools were concerned primarily with the teaching of rudimentary literacy, few specialists were required and unit costs were lower. However, the more objectives the school took on—health, vocational competence, homemaking, character development, worthy use of leisure time, civic competence, consumer competence, and the like, the more complex the educational enterprise became and the more expensive. Yet even the teaching of literacy became more expensive as our knowledge of child nature and the learning process grew.

Broader objectives, concern for the individual pupil, greater knowledge of children, better understanding of the educational process, higher standards in health, safety, and teaching, and specialization brought a variety of new services into schools which do reduce the pupil-teacher ratio and so increase expenditures somewhat. These include, among others, health services, guidance, library service, supervision, research workers, curriculum specialists, test and measurement specialists, teachers for the homebound and the handicapped, psychologists, remedial teachers, physical education and recreation programs, and social caseworkers. In addition to these, which tend to affect expenditures for professional services, there should be included the added cost of transportation, safer and more sanitary school buildings, larger sites, and better books, supplies, and equipment.

Along with program improvement has come a gradual improvement in the professional preparation of teaching personnel. From an occupation requiring a high school education or less it is advancing toward one demanding a college education as a minimum requirement plus one or more years of graduate work for many specializations. The rapid expansion of the secondary school has accelerated this trend,

because college preparation has generally been accepted as a minimum for such teaching. In 1948 over 69 percent of the teachers in the United States had at least a college degree and less than 13 percent had fewer than two years of college work. Over 14 percent had had at least a year of graduate work.²⁵

Since a 300 to 400 percent increase in public school expenditures per pupil per day between 1910 and 1950 could have been expected from economic factors alone,²⁶ improved services and improved professional preparation of teachers have not been the most significant factors in the rise in expenditures. They probably account for approximately a 100 percent increase or about one-fourth of the total increase in the outlay per pupil per day or about one-tenth of the increase in total public school expenditures.

PRICE CHANGES

Between 1910 and 1950 the consumer price index rose 140 percent (Table 2). The purchasing power of money was reduced to a point where it takes \$2.40 to buy the same goods which could be bought with \$1.00 in 1910. An increase of about 140 percent in public school expenditures per pupil per day (1910-1950) can be attributed to this factor.

ECONOMIC CHANGE

The outstanding economic fact of American life has been the steady increase in living standards. Income and wage rates have risen much more than prices. The difference represents higher standards of living. As may be seen in Table 2, per-capita income increased 333 percent and wage rates about 400 percent between 1910 and 1950. Since prices went up only about 140 percent there was a 200 to 260 percent rise in living standards.

Public school teachers and other school employees have shared in this general rise in living standards. After allowing for the decrease in the purchasing power of money, the average teacher's salary rose about 320 percent, about one-fifth more than wage rates. The excess can be

²⁵ Council of State Governments, *The Forty-Eight State School Systems* (1949), p. 202.

²⁶ See sections following.

attributed to improved professional preparation, but it is not sufficient to change the traditional economic status of teaching, which is still between that of skilled and unskilled labor. Although the status of public school teachers approached that of unskilled labor until the war was over, in the past five years the status has been approaching that of skilled labor.²⁷

Another social trend has contributed to the economic status of the teaching profession. Since teachers' salaries for over a century have not made teaching an attractive career for men, the percentage of women teachers has been growing. It stood at 61 percent in 1870; it now exceeds 80 percent. With increasing economic opportunities for educated women in business, government, and social service, the supply of women seeking employment as teachers has been reduced. This factor is important in explaining why teaching has been able to share in the general economic advance of the nation.

Since from 80 to 90 percent of public school spending is for personal service, the general rise in living standards would account for around a 200 percent increase in expenditures per pupil per day (1910-1950). After attendance this factor ranks second in explaining the rise in total expenditures. It is followed by decreased purchasing power of money, with expanded and improved services at the bottom as a factor in explaining the trends.

VARIATIONS IN PUBLIC SCHOOL EXPENDITURES AND TRENDS

National totals do not reveal the extreme variations among states and among school districts in public school expenditures. Trends have not been the same in all states and localities.

DIFFERENCES AMONG STATES

Differences among states in public school spending have been well documented. In 1930 the annual current expenditure per pupil ranged from \$32 in Georgia to \$138 in New York. In 1934 the range was from \$23 in Arkansas to \$124 in New York. In 1940 the amount varied from \$31 in Arkansas and Mississippi to \$157 in New York. In 1946 Mississippi ranked lowest with \$46 and Montana highest with

²⁷ Based upon minimum union wage scales in the building trades. See *Monthly Labor Review*, Jan., 1949.

\$215.²⁸ In 1948 Mississippi was still at the bottom with \$67 and New Jersey at the top with \$261.²⁹ The highest-expenditure state has tended to spend four to five times what the lowest did.

The foregoing figures do not reveal the effects of varying proportions of pupils in the secondary schools, which are more expensive, or the effects of population sparsity upon expenditures. The latter means lower pupil-teacher ratios and higher expenditure levels for a given standard of education. When attendance is weighted to allow for these two factors the range in 1940 is from \$17 in Mississippi to \$152 in New York and in 1947 from \$28 in Mississippi to \$238 in New York. The ratio of the highest expense to the lowest on this basis was 8.9:1 in 1940 and 8.5:1 in 1947.³⁰

The depression widened differences in expenditure levels, because some of the states with the lowest expense often suffered the severest reductions and because recovery after 1934 was not uniform. Between 1930 and 1934 the ratio of the state with the highest expense to the one with the lowest increased from 4.3:1 to 5.4:1 and in 1938 stood at 5.3:1. Between 1930 and 1934 there was only a 2 percent decrease in per-pupil expense in Delaware, but there was a 44 percent cut in North Carolina.³¹ The largest reductions were made in the agricultural and mining states with the exceptions of Indiana and Michigan.

The extent of recovery by 1940 was uneven. Among the poorer states, Arkansas, Mississippi, and North Carolina had lower expenditure levels in 1940 than they had in 1930. Georgia, Louisiana, Virginia, Florida, and Texas had advanced, while Alabama, South Carolina, Tennessee, and Kentucky recovered their losses. Among the high-expense states New York, California, New Jersey, Massachusetts, and Connecticut gained. Oregon, Arizona, Colorado, Michigan, Nevada, and Wyoming had lower expenditures in 1940. Montana had made a recovery. Of the forty-eight states, twenty-one had lower expenditure levels in 1940 than in 1930; eighteen had higher expenditures per pupil and nine had about the same expenditure level.³²

²⁸ From *Statistics of State School Systems* (See also Table 3).

²⁹ *The Forty-Eight State School Systems*, p. 178.

³⁰ Derived from National Education Association, *Unfinished Business* (1946), and *Still Unfinished* (1948).

³¹ Burke, *op. cit.*, pp. 64-66.

³² *Ibid.*, and Table 3.

Varying adjustments to inflation since 1940 have brought about some changes in the relative position of certain states. Among the twelve highest-expenditure states (1930)³³ New Jersey and Montana have moved ahead of New York. Washington has replaced Wyoming in fourth place. Michigan, Colorado, and Massachusetts also have dropped out and Rhode Island (\$221), South Dakota (\$210), and Minnesota (\$204) have been added. Among the twelve lowest-expenditure states (1930), the highest three, Louisiana, Florida, and Texas, have been replaced by Maine (\$129), West Virginia (\$138), and Oklahoma (\$144). Mississippi replaced Georgia as the lowest-expense state.

The gap between the highest-expenditure states and the lowest has been narrowed a little because the lowest-expenditure states generally made the highest percentage increases. Whereas the average expenditure level per pupil increased about 107 percent (1930 to 1948), from \$87 to about \$180, the lowest-expenditure states showed increases of 200 percent or more. The highest-expenditure states generally had less than a 100 percent increase.³⁴

TABLE 3. The Effects of Depression and Inflation upon Public School Expenditures in Selected States

Lowest Expenditure States—1930 Expenditure per Pupil ^a					Highest Expenditure States—1930 Expenditure per Pupil ^a				
State	1930	1934	1940	1948	State	1930	1934	1940	1948
Georgia	\$32	\$28	\$42	\$ 81	New York	\$138	\$124	\$157	\$251
Arkansas	34	23	31	85	Nevada	136	118	131	219
Mississippi	36	24	31	67	California	133	110	142	223
Alabama	37	30	36	99	Wyoming	129	89	109	203
South Carolina	40	27	40	110	New Jersey	125	103	136	261
North Carolina	43	24	41	110	Michigan	115	68	92	200
Tennessee	43	35	44	106	Colorado	111	78	92	191
Virginia	44	38	48	119	Montana	110	79	109	255
Kentucky	46	33	47	118	Massachusetts	110	96	115	197
Louisiana	48	36	57	161	Arizona	109	77	96	211
Florida	51	41	58	166	Oregon	103	69	97	217
Texas	55	47	66	197	Connecticut	103	82	109	221

^a Current from *Statistics of State School Systems* and *The Forty-Eight State School Systems*.

³³ See Table 3.

³⁴ *Ibid.*

VARIATIONS WITHIN STATES

The variations within states often are greater than they are among states. In 1940 the highest expenditures were at least twenty times the lowest in Arkansas, Georgia, Idaho, Illinois, Kansas, Louisiana, Michigan, Mississippi, Missouri, New York, South Carolina, Tennessee, Texas, and Wyoming. Most states had differences of over ten to one. The only states which did not have at least a five-to-one ratio were Arizona, Delaware, Maryland, Massachusetts, New Mexico, Rhode Island, Utah, Vermont, and West Virginia.³⁵ Although the gap in expenditure levels within states was reduced somewhat during the post-war inflation, the differences are still extreme.³⁶

FUTURE DEMANDS FOR SPENDING

Present trends indicate a continued upward movement of public school expenditures unless income and prices drop substantially. (1) The number of births has risen considerably above prewar levels. (2) There will be a serious shortage of school buildings arising from increased enrollments, the curtailment of school building construction since the beginning of the war, and the fact that a large part of the elementary school plant is outmoded, unsafe, and unsuited to a modern educational program. (3) The shortage of teachers, particularly in the elementary schools, will be prolonged because of rising enrollments and the high level of earnings in other occupations. Salary adjustments to attract and hold personnel and bidding for personnel will continue. (4) The price level has not begun to level off much. Schools cannot continue indefinitely to postpone maintenance and curtail purchases. (5) The standards of public school services in many states and localities must be improved if the nation is going to be strong, e.g., certification standards in most states are still very low, particularly for rural teachers. (6) The demand for extensions of public school programs downward to include kindergartens and nursery schools and upward to include the thirteenth and fourteenth years is becoming stronger. Adult education is becoming more and more essen-

³⁵ J. K. Norton and E. S. Lawler, *An Inventory of Public School Expenditures in the United States* (1944), I, 15 ff.

³⁶ See National Education Association, *Still Unfinished* (1948).

tial as political, economic, and social problems become more complex. Many school systems lack essential services such as guidance, physical education, and trained librarians. (7) The teaching profession has not yet attained an economic status commensurate with the professional preparation required. (8) Federal spending still operates as a brake on public school expenditures, but the high postwar levels of income have enabled states and localities to make substantial adjustments in public school expenditures. Unless international tension becomes worse, some reduction in federal spending can be expected.

Combined with a high price-level the greatly increased number of births since 1940 will become a major factor in determining future public school spending. Between 1930 and 1936 the number of births in the United States yearly dropped to an average of about 2,100,000 a year. Between 1937 and 1941 the average rose to about 2,200,000. In 1940 it jumped to over 2,500,000, reaching 2,800,000 in 1942, and exceeding 2,900,000 in 1943. During the war years 1944 and 1945 the number fell to a little below 2,800,000 a year. However, with demobilization and full employment the postwar average is exceeding 3,000,000 a year. These statistics mean that elementary enrollments began to show an upward trend after the war with the largest elementary enrollment in our history probable during the next decade. After 1955 the rising elementary enrollments will begin to be reflected in greatly increased secondary school attendance.³⁷

The best clue to future public school expenditures is to be found in the economic trends. As Morrison concludes:

But in the main the enrollment is a feature of modern American economics, and it is not likely to retreat unless machine production should be given up in favor of hand production, and unless organized labor should lose its bargaining power.

On the contrary, the process is likely to go on, as machine production continues to accelerate, probably not to the extension of the period of schooling in years but to the continued expansion of the high school and portions of the college to their saturation points.³⁸

³⁷ H. R. Douglass and L. H. Elliot, "School Enrollment and Teacher Need," *School and Society*, Nov. 15, 1947, pp. 369-372.

³⁸ H. C. Morrison, *School Revenue* (1930), p. 41.

SUMMARY

The great expansion of federal activities has changed the pattern of public spending in the United States. Local governmental spending now ranks second instead of first. Expenditures for public education have become less significant in the total. The percent of the national income represented by public school outlays is less than it was a decade ago. Schools have had to compete with new federal activities as well as with expanded welfare activities of state and local governments.

The economic costs of schools, the release of some thirty million children and one million adults from other productive work, reflects the productivity of the American economy. By making possible such productivity and the large markets upon which it depends, education has helped pay its way. Vital public education is essential to the success of a private-enterprise economy and a representative form of government.

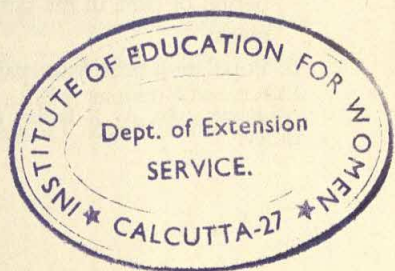
Increased dollar outlays for public education can be traced to four groups of factors: (1) increased enrollments, longer terms, and improved attendance; (2) changes in educational programs and standards; (3) changes in prices or the value of the dollar; and (4) rising living standards and the improved economic status of women. In order of importance (1910-1950) they are (1) attendance, (2) living standards, (3) purchasing power of money, and (4) program or services.

The United States is characterized by extreme variations in public school expenditures. State averages hide the extreme differences in public school expenditure levels which exist within states—ratios of over 20:1 in some states. Even state averages will vary by more than a 4:1 ratio. Although the differences have been reduced a little during the inflationary period, it often is the lowest expenditure states which suffer the greatest decreases during deflation.

READINGS

Allen and Brownlee (1), chs. I, II, IX, X; Buehler (11), chs. IV-VI, and VIII; Carr, (16), ch. I; Clark (24); Council of State Governments (188),

ch. II; Edwards (54), ch. II; Grace and Moe (73), chs. II-IV; Groves (75), chs. XXII, XXIII, and XXVIII; Harris (78), chs. I and VII; Heer (80); Lutz (97), chs. I-V and VIII; Morrison (107), ch. II; Morrison (108), ch. X; Mort and Reusser (118), ch. XI; National Education Association (134); Norton and Lawler (142); Shultz (158), chs. I-IV.



CHAPTER III

Meaning of Differences in Expenditure Levels for Schools¹

The extreme differences in expenditure levels for public schools among states and within states challenge attention. They demand explanation. Do they mean extreme inequalities in educational opportunity? To what extent do they reveal differences in quantity and quality of services? What factors besides the cost-quality relationship are operating to produce the differences?

FACTORS AFFECTING EXPENDITURE LEVELS

Any expenditure level for schools can be explained only in terms of a long list of specific factors which enter into such a complex undertaking. The most important of these include:

1. The nature and limitations of the statistics used;
2. Consumer demand and standards—the value placed upon education and the willingness to support it—confidence in the institution;
3. The economic ability of the supporting public in the units of government involved;
4. The total burden of government; and the soundness of the taxation and financing system as pointed out in Chapters I and II.
5. Price and cost differentials—the purchasing power of money, over a period of time in the same unit, and among different units of government;
6. Population density or sparsity;

¹ Based upon A. J. Burke, *Defensible Spending for Public Schools* (1943), ch. IV.

7. The structure of school government and the allocation of responsibility between central and local units;
8. The efficiency of the organization and management on the operational level; and
9. The quantity and quality of education provided.

Differences in expenditure levels over a period of time or between jurisdictions hardly ever can be explained in terms of any one of these factors. All of them have some influence, but differences in economic resources and the quantity and quality of service are most important if other factors are controlled or allowed for. They are the only two factors which show as wide a variation among states or localities as expenditure levels.

LIMITATIONS OF STATISTICAL DATA

Many of the misunderstandings and misinterpretations of public school expenditure facts arise from a lack of knowledge of available statistics. Per-pupil expenditures are confused with unit costs; and the limitations of both the units and the expenditures generally are not appreciated.

PER-PUPIL EXPENDITURES

Data available ordinarily refer only to cash disbursements which do not include depreciation or imputed rent. In most school systems, payments out of bond issues or short-term loans not repaid during the year are excluded. Total expenditures include expenditures for capital outlays and debt service. Current expenditures usually exclude capital outlay and debt service, although they sometimes include interest. Per-pupil expenditures published by most school systems are based upon current expenditures exclusive of interest. Those of the U. S. Office of Education sometimes are based upon current expenses with interest included.

The pupil in average daily attendance used in most such statistics is not a clearly defined, unchanging unit. When used for comparison over a period of time or among states or local school systems it may include varying proportions of secondary-school pupils. Unless this factor is controlled by weighting (it seldom is), some of the differ-

ences found may not be due to higher expenditures at all. Where the proportion of secondary pupils is increasing, total expenditures per pupil may be increasing while actual per-pupil expenditures for elementary or secondary schools are decreasing. The highest-expenditure states, after allowing for the sparsity factor, generally have at least a 60-percent higher proportion of pupils in high school. When used for states it may include varying or changing proportions of pupils in sparsely settled areas or urban areas. Such changes or variations can bring about differences in per-pupil expenditures which do not correspond to actual expenditure differences unless the factor is controlled by proper weighting, as it seldom is. The sparsity factor is especially important in states like Montana, Washington, Wyoming, Nevada, and South Dakota.

LACK OF UNIT COSTS

Unit costs require (1) a unit of measure which is unchanging (a properly weighted pupil, for example), (2) a uniform cost-accounting system, and (3) uniform standards or specifications for describing the good or service whose cost is to be compared. Unit costs are used to answer such questions as: (1) How does the cost of providing a given material or service compare with that in other school systems? (2) Is the school system spending too much or too little for a given unit of service or material? (3) How can school expenditures be reduced without decreasing the amount or quality of services and materials? They put the stress on the comparison of the costs of a given unit of a particular good or service. They certainly do not contemplate applying the technique to all goods and services taken together.

No such unit costs are available for total school activities. Per-pupil expenditures for public education merely show on the average what is being spent per pupil unit (which may or may not be the same) for education (which may or may not be the same) in a price structure (which may or may not be the same). Public education includes hundreds of classes of expenditures including such different elements as fuel, textbooks, janitor service, medical inspection, transportation, towels, electric lights, tens of different kinds of classroom instruction, and hosts of other services, as shown in Chapter II. It is indefensible to

apply such an extremely crude, variable, quantitative measuring instrument to a varying aggregate of expenditures, each involving many variables of quantity, quality, and time, as well as price or wage differentials. The only defensible use of per-pupil expenditure comparisons is to offer a challenge for explaining differences or lack of differences.

CONSUMER DEMAND AND STANDARDS

The willingness of the public to spend money on public schools involves a great many psychological factors: the value placed upon education, faith in public schools as a means for attaining the values, and confidence in their government and management. Furthermore, what the public is willing to spend upon schools depends in part upon their standards in education—what kind of schooling they want. This in turn depends upon the promotion and interpretative efforts of those who understand the meaning of good schools. Such subtle factors do not lend themselves readily to measurement.

One pragmatic test of willingness to support schools is available, i.e., tax effort. For states this can be expressed in terms of income and for localities in terms of property tax rate for schools upon equalized (100%) property valuation. Studies of expenditures and effort have indicated that states with the lowest economic ability to support schools generally make the greatest tax effort to support schools.² This relationship held true in 1947–1948, when the twelve least able states on the average made about 50 percent more tax effort to support schools than did the twelve most able states.³ The earlier studies found the highest-expenditure states tended to make less tax effort than the lowest-expenditure states. However, this relationship is not quite so true today. The average tax effort in 1947–1948 is the same for the twelve lowest-expenditure states and the twelve highest. In the first group the range is not quite so great, from 1.8 percent of income for schools to 2.8 percent. In the second group the range is from 1.5 to 3.2 percent (Arizona, which ranks 34th in ability).⁴

² L. W. Ashby, *The Efforts of the States to Support Education* (1936); J. K. Norton and M. A. Norton, *Wealth, Children and Education* (1938); J. K. Norton and E. S. Lawler, *An Inventory of Public School Expenditures in the United States* (1944), Vol. II.

³ *The Forty-Eight State School Systems*, pp. 176–77.

⁴ *Ibid.*, pp. 177–78.

The explanation of the extreme differences in expenditure levels between states cannot be explained in terms of the willingness factor. However, it does offer a partial explanation of the rank of certain states. Pennsylvania, Ohio, and Illinois, e.g., rank among the highest twelve states in ability (1948); yet they rank 34, 23, and 22 respectively in expenditure level. All of them rank low on effort, 43, 39, and 48, respectively. New Mexico and Utah rank among the twelve lowest states in ability, but they rank 28 and 30 in expenditures, because they stand first and third in effort.⁵

The same generalizations can be made about differences in expenditure levels among school districts. Generally the extremely low expenditure levels will be accompanied by the highest school tax rates upon equalized property valuation. So differences in tax rates among groups and local units will not explain expenditure differences. However, instances will be found where expenditure levels in particular districts are due partly to lack of tax effort.⁶

ECONOMIC ABILITY

The only factor which shows as wide a variation as expenditure levels for public schools is economic ability, insofar as this can be measured, particularly among local units of government. Of course, economic ability to pay taxes does not lend itself to precise measurements. In the first place, there is no agreement as to what taxpaying ability is. It involves a number of subjective considerations—living standards, personal or family responsibilities and demands, support of private institutions rendering a public service, debtor and creditor status, philosophy of life, habits, and other factors which affect the burden or sacrifice involved in taxation. Nevertheless, it is true generally that the higher one's income, the less taxes are likely to affect given minimum living standards. The greater the income, the more can be spent on the comforts and luxuries of life; the lower the income, the higher proportion of the income is required to meet even the most elemental biological requirements for living—food, clothing, and shelter. This fact implies that taxpaying ability does not increase pro-

⁵ *Ibid.*

⁶ See P. R. Mort, *A Review of Fiscal Policy for Public Education in New York State* (1948), pp. 12-13.

portionately to income, but tends to increase at a progressive rate as income rises.

DIFFERENCES AMONG STATES

When states are compared, the general level of income and various other estimates of economic ability to pay taxes show a very close relationship to expenditure levels for public schools. Norton, using a combination of estimated income and tangible wealth as an index of ability to pay taxes, found that the richest state was six times as able to support schools as the poorest state in 1922.⁷ He also found evidence to support the conclusion that the comparative position of the states had remained relatively constant for a number of years prior to 1922.⁸ Generally the richest states spent the most for schools and the poorest states spent the least, but not necessarily in order, because some made more effort than others.⁹ The National Survey of School Finance found that: "In all but a few states the actual minimum status of education is determined by the economic ability of local districts to support schools rather than by social needs for education."¹⁰

The close relationship between the economic resources of states and their expenditures for public schools has been shown by a number of studies using more refined techniques than those used earlier. Newcomer calculated the yield of certain commonly used taxes (personal income, real estate, business income, corporation organization, stock transfer), using the same rates for the year 1930, and showed that if all states made equal efforts to support education, wide inequalities in expenditures would result because of differences in economic resources.¹¹ Chisholm (Chism) applied the Model Tax Plan to all states, using the same rates and assigning the same percentage of the total tax yield for the support of education in all states. His study, covering the years 1922-1932, showed that the amount of the tax revenue available for the education of each child (5-17) ranged from \$17.16

⁷ J. K. Norton, *The Ability of the States to Support Education* (1926), p. 35.

⁸ *Ibid.*, p. 70.

⁹ *Ibid.*, pp. 39 ff.

¹⁰ P. R. Mort, *State Support of Public Education* (1933), p. 3.

¹¹ Mabel Newcomer, *An Index of Taxpaying Ability of States and Local Governments* (1935).

in Mississippi to \$156.58 in Nevada.¹² The study showed that it would take all of the revenue which could be raised under the Model Tax Plan for Mississippi to make the average expenditure per pupil made in the United States, 1922-1932. There would be no tax revenues left for other governmental purposes.¹³

The Nortons constructed a rather comprehensive index of the economic resources of each state in 1930, based upon income, value of farm real estate, factory wage earners, value added by manufacture, motor vehicle registrations, production of electric power, bank resources, petroleum and natural gas production, and stock transfers. Like previous studies it showed that the most able state had about six times the taxpaying ability of the least able state.¹⁴ Although there are variations in the rank of the states depending upon the index used, generally about the same states are found at the top and at the bottom of the rankings.¹⁵ Furthermore, the relative positions, especially of the poorest states, have not changed significantly over the period covered by the various studies.¹⁶

Mort, in collaboration with Newcomer and others in a study completed under the auspices of the Columbia University Council for Research in the Social Sciences, refined an earlier index developed by Newcomer and developed a new weighted index based upon percentages of ten measures found in each state. These include urban population, value added by manufacture, farm cash income weighted inversely to the percentage of farm population of total population, postal receipts, retail trade (net sales), motor vehicle registrations, value of net incomes reported for federal income-tax returns on incomes \$5,000 to \$25,000, value of net incomes reported for federal income-tax returns on incomes of \$25,000 or over, total population, and yield of a theoretical tax on authorized capital stock of corporations.¹⁷ Such indexes did not result in any substantial shifts in the relative ranking of the richest and poorest states.¹⁸

¹² L. L. Chisholm (Chism), *The Economic Ability of the States to Finance Public Schools* (1936), pp. 144 ff.

¹³ *Ibid.*, p. 153.

¹⁴ J. K. Norton and M. A. Norton, *op. cit.*, pp. 35 ff.

¹⁵ *Ibid.*, pp. 47 ff.

¹⁶ *Ibid.*, pp. 11 ff.

¹⁷ P. R. Mort, *Federal Support for Education*, chs. VI-VII and Appendix D.

¹⁸ *Ibid.*, 194-195.

The Advisory Committee on Education added a great deal to the evidence that taxpaying ability and educational needs do not go together. A study by Edwards showed that the states with the least resources have the highest ratios of children to adults. The states with the highest fertility rates and with the highest number of children per 1000 adults have the lowest productivity per worker and the lowest planes of living.¹⁹ The northeastern area had only 30 percent of the children of school age, but it had 43 percent of the national income.²⁰ Mississippi had nearly 2 percent of the children, but had only six-tenths of 1 percent of the income.²¹ Another study by Mort and Lawler contains a modification of the Newcomer index of taxpaying ability.²²

VARIATIONS WITHIN STATES

The relationship of public school expenditure levels to taxpaying ability within states is complicated by a number of variables—the structure of government, the tax system, the amount of aid from the state, the method of apportioning state aid, and the state policy toward submarginal areas²³ in addition to those enumerated in the last section.

A study of comparative taxpaying ability of school districts relative to expenditure levels should: (1) eliminate small unsatisfactory elementary- and secondary-school districts with high expenditure levels caused by district structure; (2) eliminate from the expenditure levels support received from overlapping units of government such as the county or the state except in the case of matching aid, the amount of which depends upon the ability of the district to do the matching; (3) use direct estimates of income and wealth such as were used in the previous section; (4) where assessed valuations are used, make corrections for variations in assessing practices, especially the ratio of assessed to estimated “true” or “full” valuation; and (5) allow for differences in price levels or purchasing power of the dollar.

Morrison maintains that: “It simply cannot be done, short of an investigation comparable with that undertaken in the physical valua-

¹⁹ N. Edwards, *Equal Educational Opportunity for Youth* (1939), pp. 59 ff.

²⁰ *Ibid.*, p. 83.

²¹ *Ibid.*, p. 170.

²² P. R. Mort, E. S. Lawler, and Others, *Principles and Methods of Distributing Federal Aid for Education* (1939), pp. 47 ff.

²³ See F. W. Cyr, A. J. Burke, and P. R. Mort, *Paying for Our Public Schools* (1938), ch. IV.

tion of railways, and, were such an investigation undertaken, it would be worthless unless it were completed within a single fiscal year and repeated every year. We know there are gross inequalities, but nobody has ever measured them. Even the best of the studies ignore what are in reality the prime factors in taxable ability as predicated of school districts."²⁴ Among the factors he lists are: (1) lack of accurate and comparable data on valuations; (2) lack of data on ratio of valuation to income both from the property and from other sources; (3) differences in the economic effects of property taxes on different classes of property; and (4) difficulty of defining the educational load or need which the property must support.²⁵

There are no studies available which are refined to such an extent, but there is considerable evidence to support certain generally accepted observations of the effects of extreme differences in local taxpaying ability upon public school expenditures.

Since the main support for public schools in most states is derived from the local property tax, assessed property valuation does provide a crude measure of ability to spend money on schools. Its validity, of course, depends upon the uniformity of assessments (which are far from easy to determine and far from uniform), but it is often possible to estimate differences in assessment practices and to allow for them. Certainly differences in the ratio of assessed to full valuation do not vary over 100 percent, while differences in assessed valuation per child vary by many hundred percent among small school districts. Rich school districts will have over one hundred times the full valuation per pupil of the poorest districts; in towns the range is almost as wide; and in counties the richest will have over ten times what the poorest have. Furthermore, data on the income and the economic status of local governmental subdivisions have been accumulating; these will provide more refined estimates of the taxpaying ability of the smaller units of government.

In the past decade indexes of the type used for approximating the general taxpaying capacity of states have been developed for local units of government, especially counties. Cornell developed an index

²⁴ H. C. Morrison, *School Revenue* (1930), p. 188.

²⁵ *Ibid.*

of local taxpaying ability, using population, retail sales, motor vehicle registrations, production, number of individual income-tax returns, and postal receipts.²⁶ Using the State Tax Commission's equalization ratios as a criterion, he found that in New York State (1930) his formula was more reliable in predicting relative taxpaying ability than was assessed property valuation.²⁷

Other data which go beyond property valuations in estimating local taxpaying ability substantiate to a large extent what assessed property valuations indicate to be true. Edwards found that the counties with lowest economic resources and planes of living have the highest reproduction rates and highest ratio of children of school age per 1000 of population.²⁸ His study shows clearly the discrepancy between educational load and economic resources in the various states. He also showed that differences in economic levels within states frequently are greater than those among states.²⁹ To a large extent rural-urban discrepancies in expenditure levels are due to differences in educational load relative to estimated income.³⁰ Edwards concluded: "The inequalities of educational opportunity which characterize the American educational system today result primarily from the unequal distribution of the educational load, from regional and community differences in economic well-being, and from the long-established tradition that the schools should be supported in the main from local and state revenues."³¹

RECENT DATA

The Council of State Governments' study (1948) showed that income per pupil in public schools ranged from \$15,739 in New York to \$3,030 in Mississippi. With few exceptions, the states with the lowest income per pupil ranked at the bottom in expenditure levels and those with the highest income per pupil at the top. The exceptions usually are due to differences in effort. The ratios of income per pupil

²⁶ F. G. Cornell, *A Measure of Taxpaying Ability of Local School Administrative Units* (1936).

²⁷ *Ibid.*, p. 51.

²⁸ Edwards, *op. cit.*, pp. 58 ff.

²⁹ *Ibid.*, pp. 79 ff.

³⁰ *Ibid.*, pp. 88 and 106.

³¹ *Ibid.*, p. 149.

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²⁹ *Ibid.*, pp. 79 ff.

³⁰ *Ibid.*, pp. 88 and 106.

³¹ *Ibid.*, p. 149.

and expenditure per pupil between the most able states and the least able are about the same—about two to one. The expenditure per pupil in the highest-expenditure state (New Jersey) was about four times the lowest (Mississippi); the income behind each pupil in these two states showed the same relationship, four to one.³²

PRICE OR COST DIFFERENTIALS

It is generally recognized that there are differences in price levels or living costs among states and communities; for example, it is common knowledge that it costs less to live in certain southern states than it does in the northern industrial states and that it costs more to live in some cities than in others. Nevertheless, it is not easy to measure general price variations among places because a price structure is made up of thousands of prices and because prices must be selected and weighted for specific purposes. The price patterns entering into expenditures for public education and the relative weight of different prices in determining expenditure levels for schools will not be the same as those influencing expenditure levels for highways or health service. The data available merely show that there are price variations among states and communities and that the same quantity or quality of education or of any other service affected by local price variations will require a higher expenditure in some states or communities than in others. The precise differences in outlays required to purchase the same service are not known and they probably will vary somewhat from time to time.

STATE PRICE DIFFERENCES

High ability to support schools, high expenditure levels for schools, and high price levels generally tend to go together, but differences in ability and expenditure levels among states are much greater than differences in prices. States with the least economic resources and lowest expenditure levels for schools, nevertheless, tend to be the states with the lowest price levels; but the differences are not great for like goods and services with certain exceptions. According to the data presented in the previous section, the most able state in terms

³² *The Forty-Eight State School Systems*, pp. 176 and 178.

of economic resources had about five times the ability to support schools of the least able state. According to the data gathered by the present author, no price factor showed such a wide variation.³³ Wage rates, an important determiner of prices, varied only about 68 percent in the case of average hourly wage rates on school building construction, 88 percent in union wage rates for journeymen in the building trades, and about 135 percent in average weekly earnings for all workers. Farm labor, which influences the price structure in many states more than industrial wages, varied over 200 percent among the states. Median rentals, a factor which has a close relationship to living costs, varied over 400 percent. The median cost of college room and board varied from \$175 a year to \$400 a year, about 129 percent, while median college tuition charges in private colleges ranged from \$75 to \$400. The cost of building a standard house ranged from \$4886 to \$7134 or a difference of only 46 percent. The cost of living at a uniform standard showed variations of only about 23 percent, but the actual difference in living costs probably is greater than that as indicated by median rentals and college room and board. The fact is that certain items, such as heating, are negligible expenditures in many states with low price levels. Moreover, in typically agricultural states, many items do not enter into the monetary cost of living at all, for example, food grown on the farm. It is a fallacy to assume that all sections can or should live at a uniform standard. Differences in living standards probably are more influential than differences in living costs at a uniform standard in affecting price levels, as indicated by variations in rentals.

Inflation has tended to reduce price differentials among states and communities. In 1947 there was less than a 15 percent differential in the cost of maintaining the same standard of living in large cities.³⁴ This is to be expected since the consumer price index has tended to rise more in the low-cost cities. Whereas male unskilled labor rates in Swift and Co. plants in various states varied by 45 percent in 1942, in 1948 the variation amounted to only about 24 percent.³⁵ Since income has tended to show the greatest percent of increases in the low-

³³ A. J. Burke, *op. cit.*, pp. 84-85.

³⁴ *Monthly Labor Review*, March, 1949, pp. 320-321.

³⁵ *Ibid.*, May, 1949, pp. 27-28.

income states, this trend is to be expected. Consequently, price differentials, which apparently never were a very influential factor in explaining expenditure differences for schools, are becoming less significant. They are not significant in explaining extreme variations—except as a contributing factor.

COMMUNITY DIFFERENCES

High community ability to support schools, high expenditure levels for schools, and high price levels tend to go together and vice versa. Large cities tend to have a higher average of industrial wage rates than small cities.³⁶ Average family income in large cities has been more than double that of farm families and 64 percent higher than that of families in small cities.³⁷ Average salaries of municipal employees and teachers vary according to size of city.³⁸ Average monthly rentals for homes are much higher in large cities than in small cities.³⁹ The average cost of living at a uniform standard tends to be lowest in the smaller cities.⁴⁰ Cost-of-living studies for teachers indicate that large cities and small cities within metropolitan areas tend to have the highest price levels.⁴¹ In New York State a difference of 39 percent in the cost of living of teachers among communities was discovered.⁴²

POPULATION DENSITY

Sparsity of population, no matter what the type of district structure, increases expenditure levels for public schools. Transportation, small classes, small pupil-teacher ratios, and other concomitants of sparsity

³⁶ See National Industrial Conference Board, *Differentials in Industrial Wages and Hours in the United States* (1938), pp. 19 ff.

³⁷ See National Resources Committee, *Consumer Incomes in the United States* (1938), p. 23.

³⁸ See National Education Association, Research Division, *Salaries of City School Employees, and Municipal Yearbook*, 1941, pp. 408 ff. and 451 ff.

³⁹ National Bureau of Economic Research, *Differentials in Housing Costs* (Bulletin 75, 1939), p. 8.

⁴⁰ Works Progress Administration, Division of Social Research, *Intercity Differences in Costs of Living* (1937), p. 8.

⁴¹ See D. P. Harry, *Cost of Living of Teachers in the State of New York* (1928); W. C. Eels, *Teachers' Salaries and the Cost of Living* (1933); Commonwealth of Pennsylvania, *Report of the Commission to Study the Distribution of State Subsidies to School Districts* (1927), pp. 119-146.

⁴² Harry, *op. cit.*, pp. 106 ff.

inflate the cost of any public school service. This factor is operating in states like Arizona, Montana, Wyoming, and Nevada. On the other hand, population concentration in cities and population spread in metropolitan areas is accompanied by higher price levels as shown in the previous section. This factor is very influential in determining the expenditure levels of New York, California, New Jersey, Massachusetts, Delaware, Connecticut, and Illinois.

The relationship between urbanism and public school expenditure levels is not confined to the United States nor is it a modern phenomenon. The author has found that the same relationships exist in Germany and England. Indeed, the relationships existing between public school expenditure levels in the London metropolitan area and the smaller centers in England are very similar to those which exist in the United States. The average per-pupil expenditure for public elementary education in Greater London was seventeen pounds, fourteen shillings (1934-1935). The average expenditure for places with populations of 100,000 to 999,999 outside the metropolitan areas was 27 percent less; the average for places 30,000 to 99,999, 30 percent less; and the average for places 10,000 to 29,999, 35 percent less.⁴³ The average per-pupil expenditure for public schools in the New York City metropolitan area was \$120 in 1929-1930; that of places 100,000 to 999,999 outside the metropolitan areas, 23 percent less; the average for places 30,000 to 99,999, 32 percent less; and the average for places 10,000 to 29,999, 41 percent less.⁴⁴

The relationship between public school expenditures and size of community is not of recent origin. In another study the author found that public school expenditures in the New York City metropolitan area have been higher than those of smaller cities in New York and New Jersey, at least since 1870. As the New York City metropolitan area spread into New York and New Jersey, the expenditures of the communities affected gradually approached, equalled, or exceeded those of New York City itself. Although the percentage relationships

⁴³ Derived from List 43, Board of Education, London, England.

⁴⁴ Derived from *Statistics of State School Systems, 1929-1930*; 1929-1930 data were used for the United States because no figures are available for 1934-1935 and because 1929-1930 is more comparable with economic conditions in England 1934-1935 than 1935-1936 would be.

income states, this trend is to be expected. Consequently, price differentials, which apparently never were a very influential factor in explaining expenditure differences for schools, are becoming less significant. They are not significant in explaining extreme variations—except as a contributing factor.

COMMUNITY DIFFERENCES

High community ability to support schools, high expenditure levels for schools, and high price levels tend to go together and vice versa. Large cities tend to have a higher average of industrial wage rates than small cities.³⁶ Average family income in large cities has been more than double that of farm families and 64 percent higher than that of families in small cities.³⁷ Average salaries of municipal employees and teachers vary according to size of city.³⁸ Average monthly rentals for homes are much higher in large cities than in small cities.³⁹ The average cost of living at a uniform standard tends to be lowest in the smaller cities.⁴⁰ Cost-of-living studies for teachers indicate that large cities and small cities within metropolitan areas tend to have the highest price levels.⁴¹ In New York State a difference of 39 percent in the cost of living of teachers among communities was discovered.⁴²

POPULATION DENSITY

Sparsity of population, no matter what the type of district structure, increases expenditure levels for public schools. Transportation, small classes, small pupil-teacher ratios, and other concomitants of sparsity

³⁶ See National Industrial Conference Board, *Differentials in Industrial Wages and Hours in the United States* (1938), pp. 19 ff.

³⁷ See National Resources Committee, *Consumer Incomes in the United States* (1938), p. 23.

³⁸ See National Education Association, Research Division, *Salaries of City School Employees, and Municipal Yearbook*, 1941, pp. 408 ff. and 451 ff.

³⁹ National Bureau of Economic Research, *Differentials in Housing Costs* (Bulletin 75, 1939), p. 8.

⁴⁰ Works Progress Administration, Division of Social Research, *Intercity Differences in Costs of Living* (1937), p. 8.

⁴¹ See D. P. Harry, *Cost of Living of Teachers in the State of New York* (1928); W. C. Eels, *Teachers' Salaries and the Cost of Living* (1933); Commonwealth of Pennsylvania, *Report of the Commission to Study the Distribution of State Subsidies to School Districts* (1927), pp. 119-146.

⁴² Harry, *op. cit.*, pp. 106 ff.

inflate the cost of any public school service. This factor is operating in states like Arizona, Montana, Wyoming, and Nevada. On the other hand, population concentration in cities and population spread in metropolitan areas is accompanied by higher price levels as shown in the previous section. This factor is very influential in determining the expenditure levels of New York, California, New Jersey, Massachusetts, Delaware, Connecticut, and Illinois.

The relationship between urbanism and public school expenditure levels is not confined to the United States nor is it a modern phenomenon. The author has found that the same relationships exist in Germany and England. Indeed, the relationships existing between public school expenditure levels in the London metropolitan area and the smaller centers in England are very similar to those which exist in the United States. The average per-pupil expenditure for public elementary education in Greater London was seventeen pounds, fourteen shillings (1934-1935). The average expenditure for places with populations of 100,000 to 999,999 outside the metropolitan areas was 27 percent less; the average for places 30,000 to 99,999, 30 percent less; and the average for places 10,000 to 29,999, 35 percent less.⁴³ The average per-pupil expenditure for public schools in the New York City metropolitan area was \$120 in 1929-1930; that of places 100,000 to 999,999 outside the metropolitan areas, 23 percent less; the average for places 30,000 to 99,999, 32 percent less; and the average for places 10,000 to 29,999, 41 percent less.⁴⁴

The relationship between public school expenditures and size of community is not of recent origin. In another study the author found that public school expenditures in the New York City metropolitan area have been higher than those of smaller cities in New York and New Jersey, at least since 1870. As the New York City metropolitan area spread into New York and New Jersey, the expenditures of the communities affected gradually approached, equalled, or exceeded those of New York City itself. Although the percentage relationships

⁴³ Derived from List 43, Board of Education, London, England.

⁴⁴ Derived from *Statistics of State School Systems, 1929-1930*; 1929-1930 data were used for the United States because no figures are available for 1934-1935 and because 1929-1930 is more comparable with economic conditions in England 1934-1935 than 1935-1936 would be.

have changed somewhat since 1870, the large places always have remained on top in public school spending and the smaller ones at the bottom.⁴⁵

Sparsity can inflate considerably the expenditure level for a given standard of education, but density probably is no more influential than price differences. Sparsity can make a given school program cost many times what it costs in places of average density as shown in Chapter XII.

STRUCTURE OF SCHOOL GOVERNMENT

School government in the United States is highly decentralized. There are almost 100,000 school units. Maryland has only 24 units (counties), but Illinois, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin each have over 5000. Ninety percent or more of the school units in Louisiana, Maryland, West Virginia, Georgia, Virginia, North Carolina, and Florida have over forty teachers; but over 90 percent in thirty other states have fewer than forty. Over 90 percent of the school districts in Wyoming, Colorado, Wisconsin, and South Dakota have fewer than nine teachers.⁴⁶ Where this factor is combined with sparsity as it is in Wyoming, Colorado, and South Dakota, it has a considerable inflationary effect upon the expenditure level for schools.

Small district organization and the resulting inefficient use of personnel and materials is one factor in explaining the relatively high expenditure levels of Montana, Washington, California, Nevada, Oregon, Arizona, South Dakota, and Minnesota. On the other hand, one factor in explaining the low expenditure levels of Georgia, Alabama, Tennessee, North Carolina, Kentucky, Virginia, and West Virginia is the absence of small districts. Yet, this factor probably is not much more significant than price differences in explaining differences. It is not as significant as population sparsity, but in combination with sparsity it can be most inflationary. It also should be observed that the larger units in the lowest-expenditure states have very high pupil-teacher ratios which mean a lack of educational service.⁴⁷

⁴⁵ See A. J. Burke, *op. cit.*, p. 21, Table 14.

⁴⁶ *The Forty-Eight State School Systems*, pp. 192-193.

⁴⁷ Burke, *op. cit.*, pp. 90-91.

EFFICIENCY OF ORGANIZATION AND MANAGEMENT⁴⁸

Low pupil-teacher ratios and small class-size not caused by population sparsity, the objectives sought, or the results achieved inflate per-pupil expenditures without increasing returns. This wasteful type of practice where it exists can be traced to inadequate or poorly located buildings, unsatisfactory attendance areas, outmoded practices, such as semiannual promotions, unrealistically high academic standards, failure to adjust staff to decreasing enrollments, or careless scheduling as shown in Chapter XVIII. Poor organization and management can be discovered only by a thorough study of a particular school system. Sometimes it takes years to eliminate the causes, e.g., in the case of unsatisfactory buildings. Its correction requires a direct attack upon each specific cause.

Although poor management in such matters as purchasing, maintenance, use of plant, insurance, borrowing, income management, and other aspects of expenditure management cannot be condoned, it is not as important in its effects as poor personnel management. Neither type of mismanagement is a very large factor in explaining differences in expenditure levels among units of government, probably ranking below district structure in influence.

DIFFERENCES IN SERVICES

No factor affecting public school expenditure levels, with the possible exception of economic ability, is characterized by the extreme differences which exist in educational programs. There are elementary schools taught by immature high-school graduates, with large classes, housed in primitive buildings, lacking a decent minimum of books, supplies, and equipment, and without any special services to supplement the work of the teacher. The teacher lacks knowledge of child nature, the learning process, and subject matter. The sole operating objective of the school is to achieve a low standard of literacy. On the other extreme there are elementary schools taught by mature, cultured, well-educated persons who are masters of child psychology and hygiene, who know the most effective methods of teaching and

⁴⁸ See Part IV for a fuller discussion of this factor.

handling individual pupil problems, who know subject matter, and who are capable of experimentation in method. Class size is optimum for individualization of instruction. The work of the classroom teacher is aided and supplemented by psychologists, social workers, curriculum specialists, guidance counselors, librarians, physical-education teachers, remedial teachers, nurses, dental hygienists, doctors, test-and-measurements specialists, art and music supervisors, special teachers, and other specialists to help attain the cardinal objectives—mastery of the tool subjects, health, civic competence, character, ability to earn a living, homemaking, worthy use of leisure time, the ability to get along with others, and critical thinking. The schools are housed in modern, safe, healthful and sanitary buildings with special facilities for meeting the broad objectives—libraries, gymnasiums, auditoriums, playgrounds, and special rooms. Books, supplies, and equipment are ample and take advantage of the best of modern science. Secondary schools are characterized by even greater extremes.

LACK OF DATA

There is a dearth of descriptive statistics on the educational programs in the various states and local school units. Educators frequently have assumed that low expenditure levels mean meager educational programs. Critics often have assumed that all programs are about the same and high expenditure levels are the result of poor management.

The available statistical series contain very little data on programs and services. The United States Office of Education has gathered some incomplete data since 1938 which show that the low expenditure states generally lack nursery schools, kindergartens, special classes, summer schools, part-time or continuation schools, evening or adult education classes, visiting teachers, professionalized attendance service, and libraries and generally have relatively few physicians, dentists, dental hygienists, nurses, recreation workers, and cafeteria workers.⁴⁹ The older statistical series show that they tend to have shorter terms, larger classes, higher pupil-teacher ratios, fewer administrative and supervisory personnel, less clerical assistance, and a smaller proportion of pupils in high school.

⁴⁹ *Statistics of State School Systems, 1937-1938*, pp. 82 ff., 89 ff., 98 ff., and 165 ff.; and *1945-1946*, pp. 6, 20, and 29 ff.

RESEARCH STUDIES

Research studies have contributed very little descriptive data on the comparative programs of the various states. The recent study of the Council of State Governments summarized some data on teacher preparation. After allowing for the effects of population sparsity and small district structure, the lowest-expenditure states with few exceptions have the smallest percentage of teachers with a college degree and the highest-expenditure states the highest.⁵⁰

There have been a number of studies which provide some data on program variations within states. Mort in his New Jersey and Maine surveys made a beginning in this type of analysis, utilizing quantitative data on services provided.⁵¹ Grimm⁵² and Caldwell and Burke⁵³ applied similar techniques in Illinois and New York. Mort and the present author completed such a study in New York State, using improved techniques.⁵⁴

Mort and Cornell developed an instrument for measuring the adaptability of school systems which also measures to a considerable extent the services provided.⁵⁵ They have applied this instrument in Delaware, New Jersey, New York, Pennsylvania, and Rhode Island.⁵⁶ All of these studies show that broad educational programs and high expenditure levels tend to go together in the absence of unsatisfactory district structure or other disturbing factors when groups of schools are compared. The hypothesis does not necessarily hold true for individual school systems; nor do high expenditure levels mean high

⁵⁰ Council of State Governments, *op. cit.*, p. 210.

⁵¹ Report of the Governor's School Survey Commission, *Reconstruction of the System of Public School Support in the State of New Jersey* (1939), Vol. II, ch. III; Maine School Finance Commission, *The Financing of the Public Schools in Maine* (1934), ch. III.

⁵² L. R. Grimm, *Our Children's Opportunities—in Relation to School Costs* (1938).

⁵³ A. B. Caldwell and A. J. Burke, *A Study of Financial Support and Educational Opportunity in the One Teacher School Districts of New York State* (1936).

⁵⁴ P. R. Mort, A. J. Burke, and others, *A Study of Educational Programs Relative to Expenditure Levels in the Public Schools of New York State* (1943); and *What Education Our Money Buys* (1943).

⁵⁵ *A Guide for Self-Appraisal of School Systems* (rev. ed., 1937).

⁵⁶ See *Adaptability of Public School Systems* (1938), pp. 31 ff.; *American Schools in Transition* (1941); and Commission on the Legal Structure of Rhode Island, *Schools for Our Children* (1941), ch. V.

educational returns under all conditions. The Regents' Inquiry summarized its findings in this way:

"In other words, high quality is usually accompanied by relatively high cost, but large expenditures are not always accompanied by high quality.

"High expenditures do not automatically produce high grade education.

"Though tremendously expensive, the smallest schools do not achieve adequate results.

"No amount of state money poured into districts which are too small to operate effectively will make it possible for them to give a thoroughly satisfactory education."⁵⁷

During the past five years improvements have been made in the techniques of comparing school services relative to expenditure levels and new data have been added on the relationships between the two factors. Vincent made a thorough analysis of the data used in the Mort and Burke study.⁵⁸ The Metropolitan School Study Council refined the instruments used in the previous studies.⁵⁹ McLure applied the techniques in Mississippi.⁶⁰ Woollatt studied the relationship in the highest expenditure school systems.⁶¹

SOME HYPOTHESES

The analysis of expenditure levels relative to educational returns is indeed complex. Research certainly cannot quickly provide a satisfactory answer to the problem. Yet decisions must be made on financial policies day by day. Education as a living institution requires action. Decisions and action, however, must be based upon apparently reasonable assumptions or hypotheses accompanied by a willingness to make changes if future research discredits any of these.

What are some of the broad assumptions which seem reasonable on the basis of available fragmentary data and narrowly conceived research? In regard to total current expenditure levels relative to educational returns the following assumptions seem reasonable:

⁵⁷ Regents' Inquiry, *Education for American Life* (1938), pp. 142-44.

⁵⁸ W. S. Vincent, *Emerging Patterns of Public School Practice* (1945).

⁵⁹ Metropolitan School Study Council, *What Schools Can Do*, 101 *Patterns of Educational Practice* (1945), and subsequent publications.

⁶⁰ W. P. McLure, *Let Us Pay for the Kind of Education We Need* (1948).

⁶¹ Lorne Woollatt, *The Cost Quality Relationship on the Growing Edge* (1949).

1. An adequate expenditure level by itself will not assure adequate educational returns because of the influence of other factors, especially those affecting management. It is, however, an essential condition to the attainment of adequate returns. It increases the probability of good returns, assuming that other essential ingredients such as competent leadership and administration, good personnel policies, continuous appraisal and improvement, scientific and professional budget-making, schedule-making, and business management are present, and that arbitrary factors limiting efficiency such as small district structure are not. An expenditure level is like a family income. It can limit the quantity and quality of purchases, or it can make possible desirable purchases when accompanied by consumer standards and skill in buying.

2. The level of expenditure maintained over a long period has the greatest effects upon educational returns. Results of high quality can be attained *occasionally* and *temporarily* on inadequate expenditure levels, but sufficient support is essential to the continued attainment of adequate returns. The highest quantity and quality of education generally is accompanied by relatively high expenditures over a long period of time, allowing, of course, for other factors. Very low expenditure levels over a long period of time are accompanied by the lowest quantity and quality of education.

3. The positive relationship between expenditure levels and educational returns is most observable at the extremes. In between, the relationship is so complicated by other factors that the separate influence of expenditure levels can hardly be discerned. Combinations of factors must be observed in the intermediate stages.

4. Differences in average expenditure levels for a large random sample of school districts, or smaller samples, not unduly weighted by such factors as unsatisfactory districts, sparsely settled areas, and areas with high living standards and living costs, generally mean differences in educational opportunities and educational returns. However, this assumption does not hold true for individual school districts or very small samples of districts.

5. Rapidly increasing or decreasing expenditure levels will not result in immediate corresponding increases or decreases in educa-

tional returns owing to the carry-over of leadership, personnel, policies, program standards, and public opinion, unless such changes in expenditures are accompanied by measures which will offset the carry-over influence of such factors. The cumulative effect of higher expenditure levels will be increased returns, assuming that all other factors are favorable. The cumulative effect of the decreased expenditure level will be reduced returns, provided that there are no changes in other important factors.

6. Decreasing expenditure levels do not necessarily bring about economy or efficiency. Indeed, lowering expenditure levels may result in a higher percent of wasteful expenditure (like buying a shoddy garment which will soon wear out). Economy and efficiency must be attained by direct attacks on the factors involved—district structure, administration, and the like. The return received from any expenditure level can be increased by positive action on such matters as efficient planning, efficient buying, and good management.

7. Poor educational returns may be accompanied by a wide range of expenditure levels, even when observed over a long period of time, because of the influence of many factors. Conversely, high expenditure schools may vary widely in quality because of these same factors.

8. Low expenditures tend to go along with other factors not favorable to the wise management of increased expenditure levels. Although any increase in expenditure levels in such schools will increase the probability of greater returns, steps must be taken to offset the influence of the unfavorable factors.

9. Equalization on the basis of a given expenditure level means educational returns varying in quantity and quality as between places with different price structures and between different periods of time in the same place when prices are rising or falling.

RESULTS

The true test of adequate returns for money spent is the effects of program and services upon pupils and society. The most baffling obstacles to relating expenditures to results are: (1) the difficulty of measuring the most important returns from education; (2) the dif-

faculty of isolating the influence of other factors on results, and the influence of factors in the past.

Valid and reliable measuring instruments touch only a very small part of the results of education—certain immediate verbal knowledge and certain immediate skills, especially the linguistic or the symbolic. Measures of other outcomes are still in the developmental stage. Furthermore, existing instruments measure only the obvious and immediate effects upon the individual, not the effect on the total personality and behavior of the individual. They do not measure the social effects, present and future, the effects upon the individual in the future, and effects upon future generations.

The school is not the only factor contributing to the results as measured by any given instrument. It is practically impossible to determine the separate influence of native intelligence, health, home conditions, community contacts, out-of-school environment, and other agencies such as the press, radio, and church.

Many factors have operated in the past to produce present results. The past education of parents, the past education of school children, past health, past experience, past expenditure levels, all contribute to the results of education as measured at a given time. Even partial results of education, therefore, cannot be measured in any absolute sense. They have to be related to such present factors as intelligence and to such past factors as previous education and experience. Studies like those of Powell⁶² based upon testing have to be carefully interpreted. The same is true of studies like the Regents' Inquiry, which utilized test results supplemented by certain other data or observations on the immediate status of the quality of schooling.⁶³

APPRAISAL OF EXPENDITURE LEVELS—A SUMMARY⁶⁴

Citizens, taxpayers, and school officials must appraise their expenditures for public schools. They cannot help making comparisons between their outlays and those of other communities. What data should

⁶² O. E. Powell, *Educational Returns at Varying Expenditure Levels* (1933).

⁶³ Regents' Inquiry, *op. cit.*, pp. 140 ff.

⁶⁴ From *Defensible Spending for Public Schools*, ch. XII.

they have to make intelligent conclusions? Certainly the following might be considered a minimum:

1. Differences in educational programs. All education is not the same. In any one school system, what is included under education will vary from year to year, the differences widening as longer time-intervals are compared. Among school systems extreme variations will be found. The objectives which a school system is actually trying to achieve will vary. The caliber of personnel employed to achieve purposes will show even wider differences, and the means employed—services, programs, curricula, methods, and organization—will vary considerably.

2. Differences in pupil populations. Within and among school systems the number of children and the characteristics of pupil populations, such as age levels, ability levels, economic status, parentage, health and physical characteristics, home background, and community experiences, will differ. The number of children to be educated obviously will affect expenditures, but the characteristics of pupil population may be more potent in determining expenditure levels, a factor which is not so obvious to the layman.

3. Income. In order to attract and hold capable personnel, public school expenditures must reflect income levels or trends. If capable persons are to be attracted into the profession and kept in the profession, schools must provide incomes which are commensurate with those which persons with similar abilities can earn in other occupations. A state or a community with a high level of income may have to pay more to get competent personnel than one with a lower level of income.

4. Prices. Income payments and other factors affect price levels as between time-intervals and between places. Price differences among communities and states and trends in prices, or the purchasing power of the dollar, must be taken into account.

5. Density of population. Extreme sparsity of population means that a sufficient number of pupils cannot be brought together at a reasonable transportation cost to provide economical instruction. A given quantity and quality of education will be costly in sparsely settled areas. Nevertheless, this expense is defensible under democratic

principles. Extreme density of population, on the other hand, seems to be accompanied by higher income and price levels.

6. District structure. Even where sparsity is not operating, small units of school administration and small attendance areas will inflate costs. Probably such a structure and organization cannot be defended. Yet, if the people of a state permit them to exist, they must be willing to pay the price.

7. Governmental structure. Overlapping units of government, such as the state, county, city, village, town, and special district, sometimes provide educational services or meet the costs of certain goods and services used by schools, such as water, light, psychological service, or health service. Often one school district will pay for public library services, police protection at school street-crossings, recreation, and health services which in another district are paid for by some other unit of government. Such variations must be discovered and allowed for in comparisons.

8. Units of measurement. Public school expenditures represent a heterogeneous aggregate of goods and services. Although there are well-defined, unchanging units for measuring expenditures for specific goods like coal, and somewhat imperfect measures for special services like janitorial work, there is no unit for comparing the aggregate. Such a unit as current expense per pupil has practically no meaning. Variations must be explained in terms of the factors here enumerated.

9. Willingness. The sense of values of a population and its confidence in school management determine willingness to spend money on public schools, an extremely crucial factor. A population with low cultural and educational standards will not spend as much for education as an enlightened population. Unfortunately, such conditions form a deplorable cycle—low standards resulting in poor schools, poor schools resulting in low standards. National and state leaders, professional men and laymen, must take the initiative to break this cycle, especially in rural America and large politically dominated cities, if the welfare of all is to be promoted and protected. Confidence depends upon establishing the conditions essential for defensible spending, including the elimination of indefensible spending and effective interpretation of expenditure facts to the public.

READINGS

Ashby (4); Chisholm (19); Cyr, Burke, and Mort (39), chs. III-IV; Edwards (54); Grace and Moe (73), chs. II-V; Morrison (107), ch. VIII; Mort (109), chs. IV-VII and Appendix D; Mort (111), chs. I-III; Mort and Cornell (115); Mort and Norton (117); Mort and Reusser (118), ch. XI; National Survey of School Finance Staff (135), chs. IV-VI; Norton and Lawler (142); Norton and Norton (143); Swift (171), ch. VI; The Advisory Committee on Education (175), chs. I-II.

CHAPTER IV

Policies and Principles Underlying Public School Outlays and Their Control¹

Public school expenditures reflect public policy regarding education. Policy expresses the operating principles of our way of life. As would be expected in a democratic nation, the principles themselves are not always in harmony, and require a delicate balance.

The principles underlying public school spending and those which govern the structure of our government and fiscal relationships among governmental units cannot be separated. Fiscal controls can destroy the allocation of governmental responsibility. Emphasis upon a single principle in finance can bring about shifts in governmental control. Shifts in operational responsibility or control sometimes are not accompanied by the required changes in finance. Unintentional shifts in control can follow certain finance practices.

There are six groups of principles involved in public school spending centering around: (1) governmental responsibility, (2) decentralization, (3) initiative and adaptability, (4) equalization, (5) fiscal independence of school government, and (6) state supervision. These clusters of principles must be understood in order to comprehend public school spending and the sound ways to improve it. The principles are involved in all school, state, and local governmental relationships, relationships with other local units of government, and

¹ Based upon A. J. Burke, *Defensible Spending for Public Schools* (1943), chs. V and VII.

relationships with private educational institutions. Since undue emphasis upon one often can negate others, they must be reëxamined at all times to test their effects.

GOVERNMENTAL RESPONSIBILITY

The most fundamental, generally accepted principle of American public school finance is that the government is responsible for providing education. In the New England states, especially Massachusetts, this principle was recognized long before the government of the United States was established.² After 1776 the New England policy was gradually extended to other states.

Protestant churches, particularly in states like Massachusetts, New York, and Pennsylvania, for a number of decades after the adoption of the Federal Constitution maintained that education was a church responsibility. By 1850 most of them had accepted the principle of education as a state responsibility, but the Roman Catholic Church and certain other churches never have accepted this principle. They have opposed extensions of public education through child-labor laws and compulsory education laws. They have opposed federal aid for public schools. They have fought for public financial aid for church schools.³

The Roman Catholic Church has been urging a return to the policy of public support for nonpublic schools on the principle of religious freedom.⁴ The present policy of not granting such support is being defended largely upon the principle of separation of church and state.⁵ From the viewpoint of freedom of religion and thought, this ideological conflict is indeed important, but from the point of view of public school finance other issues are more important. The public financing of nonpublic schools has implications for educational and financial control and economy which have not been sufficiently stressed in the controversy. These will be discussed later in this chapter.

In the early decades of the Republic aristocratic elements opposed

² E. P. Cubberley, *Public Education in the United States* (rev. ed., 1934), pp. 68 ff.

³ *Ibid.*, pp. 230 ff., and S. W. Brown, *The Secularization of American Education* (1912).

⁴ See R. J. Gabel, *Public Funds for Church and Private Schools* (1937), pp. 732 ff.

⁵ See *Encyclopedia of the Social Sciences*, V, 422.

state responsibility for public schooling and supported the charity or pauper concept of public schooling for the poor. They were successful for a time in Connecticut, New York, Pennsylvania, New Jersey, Delaware, Maryland, and the southern states, but by the third quarter of the nineteenth century they had been defeated.⁶ Since then the adherents of the principle of class education have fought to limit extensions of state responsibility, urging a return to universal elementary schooling limited to the barest fundamentals, with secondary education limited to a select few and stripped of its vocational, avocational, and enriching experiences. The principle of universal education without class distinction has prevailed.

FEDERAL RESPONSIBILITY

The Federal Constitution left the control of schools to the states, but as national government matured, it has assumed certain responsibilities for schools. (1) It has required the establishment of state school systems as a condition for admission to statehood. (2) It has used grants of land or money to encourage the establishment or extension of state school systems. (3) It has used federal grants to stimulate within states types of education which were deemed to be in the national interest. (4) It has used federal grants to assist state school systems adversely affected by depression or war—emergency aid. (5) It has assumed direct responsibility for the education necessary for defense, education within federal jurisdictions, and education for federal employees. (6) It has applied certain provisions of the federal constitution as they affect schools—e.g., separation of church and state and racial equality.

It will be shown in Part III that the national interest has become increasingly important in the determination of state and local policy. There is every reason to expect that it will continue to do so. Yet the principle that education should promote the national interest can easily violate other basic principles. Because federal policy has not always been consistent, the problem will be to define a national policy which will be in harmony with the principles upon which the state

⁶ Cubberley, *op. cit.*, pp. 189 ff. and I. Doughton, *Modern Public Education; Its Philosophy and Background* (1935), pp. 398 ff.

and local school systems were established. Part III will discuss the proper place of the federal government in public school finance.

STATE RESPONSIBILITY

The principle of state responsibility for public education has become accepted by constitutional enactment, legislation, and practice in all forty-eight states. State action in compelling school attendance, free schools, minimum terms, minimum standards, and local taxation for schools is a major factor in local expenditures for schools.

All states have shown a willingness to delegate operational and fiscal responsibility for schools to local units of government. Yet such units generally are regarded as state agencies of local jurisdiction, with specific grants of power, both as to education and taxation. States have not recognized any inherent right to home rule in education. States have been most inconsistent in granting home-rule powers—increasing operational responsibility while restricting fiscal powers, stimulating local taxation and then restricting it, extending mandates without increasing taxing power, and pursuing state financial policies or practices which have violated other principles. Harmonizing state policy also will be taken up in Part III.

State responsibility in education always must be tested against the principle of adequacy. Since the concern of the state arises from economic and civic considerations, adequacy is judged in terms of contributions of schools to economic and social welfare. In a representative government with universal suffrage and a high degree of population mobility, adequacy cannot be achieved solely by delegating authority and power to local units as is done in Nebraska. Too many local units lack the fiscal capacity to meet the national needs. Too many are educating the future citizens of other localities. There must be a pooling of resources to attain adequacy and equity in tax burdens, as shown in Part II.

The principles of state responsibility for public education, it must be stressed, are not clearly defined. They are broad generalizations. The very nature of democratic processes, decentralization, and differences in traditions, character or status of population, and environment, especially those affecting educational opportunities and taxable re-

sources, have led to widely varying interpretations of the underlying principles among states. Moreover, within any given jurisdiction the meaning attached to civil responsibility has been changing. From time to time and from place to place there are variations in compulsory education laws—lower and upper age limits, length of schooling, length of term. The trend is toward lengthening the period and eliminating exemptions.⁷ There are differences and there have been changes in the age limits for which education shall be provided free of charge. There are extremes in the quantity and quality of educational opportunities or services provided at public expense, ranging from nursery schools and preschool services to elaborate programs of higher and adult education. Furthermore, there are many differences in the policies or prerequisites established for different opportunities. Admission to curricula and courses may be arbitrarily limited to a few, or pupils and parents may be free to choose any course they desire. Public school experience may be conceived very narrowly in terms of fixed bodies of subject matter, or conceived in terms of developing each individual to his maximum capacity in all directions—physical, vocational, intellectual, moral, and esthetic.

The varying interpretations and applications of civil responsibility for public schools which exist among different states and different subdivisions within states create another major school finance problem. When has a state adequately discharged its responsibility for public education? What is the minimum educational level below which the people of the nation as a whole cannot permit any state to go for the protection of all and for the preservation and improvement of the democratic state? For the same reasons, what is the minimum educational level below which the people of the whole state cannot afford to let any of its school districts go?⁸

EFFECTS

The application of the principles of civil responsibility for public education has brought about public school spending in the United States and has led to increased federal and state participation in public

⁷ *Encyclopedia of Educational Research*, pp. 355 ff.

⁸ See National Survey of School Finance Staff, *Research Problems in School Finance* (1933), ch. III.

school support. Education for civic competence, the protection and preservation of the group, the advancement of the individual, the improvement of group life, and adaptation to changed conditions have been motivating forces for the expansion of public schooling. States probably have aimed to provide educational facilities for all future citizens equal to the best that have been developed. Yet practical considerations such as public opinion, existing public school personnel and facilities, past educational provisions, tradition, and financial resources often have resulted in educational provisions far below what might be regarded as adequate.

DECENTRALIZATION

All the states apparently have believed in the superiority of locally operated school systems. Even states with the most pronounced central tendencies have retained the local structure of school government. The policy probably stems from one or more of the following principles: (1) Democratic processes have their best chance of success on the local level. The larger the units the more they must rely upon representative government. (2) The effects of close participation in government themselves are valuable regardless of operating efficiency. (3) The educational function is intimately bound with the home; school government should be close enough to the home to make possible close coöperation. (4) In a country of vast geographic area and great contrasts in population, geography, and economic institutions, necessary variability to meet local needs can best be obtained through local operating units. (5) Greater progress can be achieved under a decentralized system with freedom. (6) Greater fiscal control can be obtained where the taxpayers have a direct voice in government and can observe the efficiency of operations. (7) Educational programs which are understood and demanded by the citizens have greater stability. This can best be accomplished in smaller units of government.

The difficulty in most states is that they went to such extremes in decentralization. If they had not recognized the error early in their history, we probably would have over 200,000 units of school government today. As it is, we have nearly 100,000, or an average of one for each eight teachers or 250 pupils. This results in an unduly complicated system of government; and many of the units are not capable

of performing the educative function. Changes in population and wealth have made some of them able to support excellent schools with almost no tax effort, while others cannot support even inadequate schools with excessive tax burdens. The growth and expansion of the educational enterprise has not always been accompanied by an expansion of the local supporting unit. Some units have lost the population elements which bring background, vision, and intelligence to policy formulation. Consequently, American school government too often is characterized by extreme inequalities in educational offerings, short-sighted policies, neglect of the broader problems, inertia, petty politics, inefficiency, and waste. This has brought about a gradual extension of central controls.

STIMULATION AND REWARD-FOR-EFFORT

Extreme decentralization into unsatisfactory and outmoded local units for schools did not always result in the progress and adaptability expected under local freedom. The states and later the federal government sought means for stimulating local improvements.

By 1920 the implications of state and federal policy weighted on the side of stimulating local undertakings through financial grants which demanded additional local tax effort were becoming recognized. It was found that payment-for-effort meant that only wealthy districts could get maximum state aid; and they could get it with very little effort as measured by their tax rates. Even extremely high local tax rates would not enable poor districts to get full state aid. Inequalities in educational opportunities or burdensome local school taxes were being promoted by the policy. Updegraff (1922) in his New York and Pennsylvania studies urged that more emphasis be placed upon equalization.⁹ Strayer and Haig (1923) showed that stimulation was not tenable as a permanent policy. They showed that the policy was inconsistent with equalization—indeed nullified it by giving the most aid to the districts with the greatest taxpaying abilities.¹⁰

Another effect of reward-for-effort in public school finance has

⁹ H. Updegraff, *Financial Support* (Rural School Survey of New York, 1922), pp. 195 ff.

¹⁰ G. S. Strayer and R. M. Haig, *The Financing of Education in the State of New York* (1923), pp. 166 ff.

received very little attention—the effect upon school district and municipal government relationships. It is a fundamental, generally accepted principle in America that education is a state responsibility—local school districts, corporations, or authorities are state agencies of local jurisdiction. Overemphasis on payment-for-effort tended to increase the local tax burden for school support quite independent of the tax burden and tax needs of municipalities as a whole. Since both were taxing the same property, competition between the state agencies of local jurisdiction and general municipal government was inevitable. This resulted in demands for making school districts fiscally dependent upon local municipal government, that is, making school budgets a subordinate part of general municipal budgets. In many places, through statutes and charter provisions, a state function, public education, was made subordinate to local functions because of the overemphasis on local support for schools as a result of payment-for-effort.

Since the work of the Educational Finance Inquiry, neither stimulation, payment-for-effort, nor reward-for-effort has been considered a sound principle of public school finance. As shown by Mort, stimulation is but a device for carrying out a more fundamental principle which is not inconsistent with the equalization principle.¹¹ Recognition and development of this underlying principle, now called the adaptability principle, is largely the work of Mort and his students.¹² As a result of Mort's work it is now evident that stimulation not only is contrary to the equalization principle, but tends to negate the very principle it attempted to carry out. It restricted local budgetary freedom and tax leeway essential to adaptability and local initiative.

The only alternative to further centralization in most states is a complete reorganization of local school units. Not only must the units be large enough to offer a modern school program, but many of the central controls adopted for unsatisfactory units must be withdrawn. Budgetary freedom, taxing power, and operational freedom must be

¹¹ P. R. Mort, *State Support for Public Education* (1933), p. 37.

¹² *Ibid.*, pp. 36 ff. See also P. R. Mort and F. G. Cornell, *Adaptability of Public School Systems* (1938); P. R. Mort and F. G. Cornell, *American Schools in Transition* (1941); and F. W. Cyr, A. J. Burke, and P. R. Mort, *Paying for Our Public Schools* (1938), pp. 77 ff.

restored to the new units. Extreme decentralization destroys the advantages of the policy.

EFFECTS

Extreme decentralization in public school finance has increased expenditures by permitting inefficient use of personnel and facilities, by duplicating services performed by other units of government, such as tax collection, by promoting petty local interests or politics, by perpetuating unskilled management of public school expenditures, and by making impossible maximum economies in personnel, purchasing, debt service, insurance, construction, transportation, and other expenditures.

INITIATIVE AND ADAPTABILITY

The principle which really keeps a school system vital, growing, dynamic, responsive, flexible, or elastic, has been variously called the adaptability, progressive, or efficiency principle. It is a very elusive principle—even more difficult to define than civil responsibility itself. It involves the following: (a) imagination, invention, creation, or innovation; (b) introduction, inauguration, initiation, or experimentation; and (c) promotion, extension, communication, dissemination, or spread; resulting in (d) widespread adaptations, efficiency, progress, improvements, adjustments, reforms, effectiveness or potency in public schooling.

The following definitions of the adaptability principle have been made in recent years:

1. "A school system squaring with the principle of efficiency is one that adjusts or realigns itself in the face of new and changed conditions."¹³
2. "From the historical development of public education in the United States there would seem, therefore, to be no question that the state has a responsibility to encourage continued adaptation of local educational programs to meet new conditions."¹⁴
3. "The . . . adaptable school system will without delay cast out the dead wood, shift emphasis into line with importance, add new services. The school system which is not adaptable will continue to serve waste-

¹³ A. D. Simpson, in American Association of School Administrators, *Schools in Small Communities* (1939), p. 351.

¹⁴ P. R. Mort, *op. cit.*, p. 38.

fully, maintained only by the human failing of the public to assume that the practices of the past are good."¹⁵

4. "In most of the literature, variability is used to include adaptability. As used here, variability is adaptation to variations in recognized needs from community to community. Adaptability refers to changes in the recognized program that might or might not be applicable to all communities without variation. The variability principle demands flexibility in meeting objectives, old and new. The adaptation principle demands capacity for change."¹⁶

APPLICATION

Decentralization of structure (accompanied by equalization aid from federal and state governments) is the means usually prescribed for keeping a school system flexible and adaptable. It is assumed that a decentralized system will demonstrate more inventiveness and originality in making adaptations to new knowledge and new conditions. It is assumed that permitting some school districts to provide opportunities far beyond average creates a powerful stimulation for raising the average. It is believed that a decentralized system is in a better position to discover local needs and make adjustments to them. However, decentralization by itself does not assure adaptability or flexibility. Certain other conditions must prevail.

In applying the principle to the structure of public education, certain related principles have been developed which define the conditions under which decentralization may promote adaptability:

1. There should be satisfactory local school districts; unsatisfactory units cannot adjust; they lack the resources.¹⁷
2. The social composition and organization of a school district should be such as to assure an active lay interest in education, the selection of able persons for school-board service, continuity in school-board membership, freedom from economic and political pressures in the management of school affairs, and local decisions that safeguard the interests of all the people of the state and the nation.

¹⁵ Mort and Cornell, *Adaptability of Public School Systems*, p. 6.

¹⁶ Mort and Reusser, *op. cit.*, p. 102.

¹⁷ Mort and Cornell in *American Schools in Transition*, p. 193, raise the question of whether it is unrealistic to attempt to operate such school districts under local initiative.

3. Freedom for local school authorities to experiment within the state foundation program of education and to go beyond state minimum educational standards (the absence of maximum standards or restraints) should exist.

4. State minimum standards should not hamper the local district in doing a better job than is now being done; for example, limitations on class size are not desirable, since so little is known as to what constitutes satisfactory class size for various purposes, and since class size is not the only factor which determines the effectiveness of instruction.

5. There should be a local tax base for schools, not too heavily taxed by other governmental agencies and adequate to permit a reasonable amount of local tax leeway, and freedom to levy taxes upon that base without arbitrary restraints, to make effective local initiative.

6. There should be sufficient revenues from central and local sources to employ competent professional leadership and management to aid the school board in the formulation and execution of local educational policies.

7. There should be absence of inspection, review, or central controls over the decisions of local boards of education, especially where state minima are not involved; the test is, who has the final decision on expenditures, the central authority or the local agency?¹⁸

The adaptability principle can be applied by "stimulation aid," but certain conditions must prevail. (1) The financing should not be weighted on the side of stimulation; otherwise, equalization will be nullified. (2) Stimulation aid should be based upon a local contribution commensurate with taxpaying ability; otherwise, adaptability through local initiative will be destroyed by overburdening the property tax in districts that are not wealthy. (3) Stimulation aid should be pursued only as a temporary measure. As soon as practical, the stimulated activity should be financed throughout the state. However, the evidence seems to indicate that under a good state equalization program and properly organized local school districts, new undertakings can be stimulated without such special aids.¹⁹

¹⁸ See Mort and Cornell, *Adaptability of School Systems and American Schools in Transition*.

¹⁹ See L. N. Neulen, *State Aid for Educational Projects in Public Schools* (1928); J. W. Wrightstone, *Stimulation of Educational Undertakings* (1933).

Other applications of the principle probably would involve the use of state funds to promote research, experimentation, improved teacher education, leadership, clinics, and demonstration centers.

EFFECTS

The effect of this principle is to encourage localities and states to have high expenditure levels and not level the fiscally able down to some norm. It is like private-enterprise economy, which encourages the able to move ahead. It implies that a healthy school finance system will have inequalities in educational opportunities. It places no ceiling upon citizen action in attempting to have better schools for their children.

EQUALIZATION

In the application of the American principles of civil responsibility for public education another principle has evolved—the equalization principle. Such a principle would be unnecessary in a centralized system where tax laws are uniform for all and where practically uniform public school facilities are provided throughout the system. In the city of New York, with a population of 7,500,000, there is no equalization problem, at least regarding the support of public education, but in the state of Nevada, with a population of 110,000, there is. The principle is largely the product of decentralization, unequal taxpaying capacities, and extreme differences in educational provisions. The equalization principle also has its basis in another democratic ideal—that of equality of opportunity, especially in economic life. Concern for the welfare of the individual has led to a demand for the extension of educational provisions to the many where formerly they were available only to the few. This demand for equality of opportunity has brought about extensions of educational opportunities quite independent of the demands of citizenship or public welfare implied in the principle of state responsibility.

ITS NATURE

Comprehension of equalization as a principle of public school finance requires an understanding of two basic elements in the demo-

cratic process. These may appear on the surface to be in conflict with each other; but fundamentally they are complementary. Without one, the other loses a good deal of its significance. One may be called the dynamic or disequalizing factor; the other, the stabilizing or equalizing factor. If it were not for the dynamic element which creates educational variableness and disparities, there would be no great urge to stabilize or equalize educational opportunities. Equalization conceived in terms of narrowing the existing disparity of opportunity is of great social value, but conceived in terms of a gradually rising level of opportunity, it becomes of even greater value to a civilization. Only as the dynamic force is allowed to operate can this hope be realized. On the other hand, this creative force might destroy itself and equalization too if the stabilizing, equalizing process were not functioning. By gradually narrowing disparities of opportunity and preventing retrogression and decay, the equalizing element preserves and fosters the disequalizing element.

Applied to a school finance system, one of the elements has been called the equalization principle; the other generally has been referred to variously as the progressive, the stimulative, the efficiency, or the adaptability principle. The principle of state responsibility for public education underlies both of these principles. In effect they flow from and help define state responsibility.

DIFFICULTY OF DEFINITION

The equalization principle has received the greatest emphasis in state school finance systems in recent years; yet it is a very difficult principle to define. It is hard to define because it involves five elements—program, personnel, financial support or aid, financial resources, and tax burden (taxpaying ability, sacrifice, effort, and benefits). Each of these is difficult to delimit because they easily impinge upon other basic principles.

A centralized school system can make uniform financial provisions for public education, and can under ideal conditions come as near complete equalization of educational provisions as possible. Yet under the best conceivable administration it is not likely that all the teachers and other personnel employed would be equally capable, prepared,

skillful, and efficient. Since the teacher is the most vital element in an equal educational opportunity and since the individual differences are inevitable, no exact equalization is possible. Furthermore, although it is possible to provide uniform programs, curricula, and physical facilities in a centralized system, in reality there are likely to be extreme differences in facilities. Under the worst conditions it is possible in a centralized system to have uniformly low educational opportunities, for example, when personnel appointments are based upon political factors rather than merit. If such variations are possible in a centralized system, exact equality of opportunity is even less probable in a decentralized system.

The following definitions of the equalization principle have been made by various writers:

1. "Education within a democratic culture must provide for equality of individual opportunity in accord with inborn capacity so that an individual will not be deprived of educational advantages because of race, religion, age, geographic location, physical, social, or economic conditions, and the group will not be deprived of the possible services and contributions of any individual."²⁰
2. "The principle of equalization or equity is not concerned with equal rewards or outcomes, but with equal chances or opportunity. Since this is admittedly an inexact area, the concern is not with exact equality, but rather with 'reasonable' equivalence."²¹
3. "It is time, therefore, that New York define the minimum permissible educational opportunity or foundation program in terms of the product of education. In other words, what is the minimum amount of education that should be possessed by all in order to protect the interest of the State. . . . If the foundation program represents the absolute minimum in the way of educational opportunity, the maximum approvable educational opportunity may be conceived as the program beyond the minimum which has for its objective the development of the individual to the fullest extent of his capacities."²²
4. "Equality of opportunity is not to be considered in the absolute. There are practical difficulties which make it unthinkable to attempt equalization to secure identical conditions for all children and even absolute

²⁰ A. B. Moehlman, *School Administration* (1940), p. 127.

²¹ A. D. Simpson, *op. cit.*, p. 350.

²² A. G. Grace and G. A. Moe, *State Aid and School Costs* (1939), pp. 252-253.

equity of costs to all supporters of education . . . the aim should be to remove the most extreme conditions. . . ."²³

5. "This analysis interpreted the so-called equalization principle as the complete equalization of the burden of a satisfactory minimum educational program below which no locality would be allowed to go, but above which any locality would be allowed to by means of its local support.²⁴ . . . "Briefly stated, a defensible minimum educational program for any state may be regarded as the actual program financed in the communities of average wealth."²⁵ ". . . it has become a rather widely accepted policy to define the extent of the foundation program in terms of cost and to leave its nature to be dealt with as a problem of control."²⁶
6. "Can moneys in the possession of the state government be so distributed among districts of varying fiscal ability as to establish everywhere equivalent schools capable of carrying out the essential purpose of adequately educating and training the childhood and youth of the state, and at the same time be so distributed as to make the burden of taxation equal in all districts?"²⁷ ". . . the several states themselves are the appropriate fiscal and administrative units in the support and conduct of the citizenship school which has long been held to be the corner stone of our polity as a self-governing State."²⁸
7. "Equality of educational opportunity means not an identical education for all children, but the provision by state or local means of at least certain minimum essentials in the provision of schools, their supervision, and their financial support. The acceptance of education as a function of the state and the insistence that, in the main, certain minimum educational standards are the concern of all the people in the state rather than that of certain minorities, makes it incumbent upon the state to provide the machinery through which the principle may be effectively realized."²⁹
8. "The principle of equality of educational opportunity, followed to its logical conclusion, is found to arrive at the equivalent of a state educational system, which requires a satisfactory state-wide minimum offer-

²³ S. H. McGuire, *Trends in Principles and Practices of Equalization of Educational Opportunity* (1934), pp. 24 and 28.

²⁴ P. R. Mort, *op. cit.*, p. 36.

²⁵ *Ibid.*, p. 52.

²⁶ P. R. Mort, *Federal Support for Public Education* (1936), p. 18.

²⁷ H. C. Morrison, *School Revenue* (1930), p. 202.

²⁸ *Ibid.*, p. 214.

²⁹ Mort and Reusser, *op. cit.*, p. 99.

ing supported by taxes of uniform weight in relation to tax-paying ability throughout the state."³⁰ . . . "To carry into effect the principle of 'equalization of educational opportunity' and 'equalization of school support' as commonly understood it would be necessary (1) to establish schools or make other arrangements sufficient to furnish the children in every locality within the state with equal educational opportunities up to some prescribed minimum; (2) to raise the funds necessary for this purpose by local or state taxation adjusted in such manner as to bear upon the people in all localities at the same rate in relation to their taxpaying ability, and (3) to provide adequately either for the supervision and control of all the schools, or for their direct administration, by a state department of education."³¹

At one time it was assumed that a minimum educational program could be defined in detail to serve as foundation for the state school finance system;³² but the assumption has not prevailed. The first difficulty is the very nature of democratic education—meeting individual and local needs. Is there one educational program adapted to all school populations and communities? Will a program which is rigidly defined promote the independence of thought and other freedoms characteristic of the democratic way? The second difficulty lies in the very nature of the educational process. Program is only one element: perhaps personnel is the most important factor. The range of possible weightings of program and personnel are wide; no one knows what is the best balance for a given situation. To what extent can central authorities define the qualifications of personnel without violating other principles? To what extent can central authorities define the learning process for specific populations and specific situations? Furthermore, it is possible that there is not one best program but a range of equally good programs, any of which might guarantee a child a good minimum of educational opportunity. Also it must be remembered that an educational program must be considered as a whole. If support is to be shared by both state and local authorities, who is going to determine the program, state authorities or local authorities?

³⁰ Strayer and Haig, *op. cit.*, p. 176.

³¹ *Ibid.*, p. 174.

³² See F. H. Swift and B. L. Zimmerman, *State School Taxes and Their Apportionment* (U. S. Bureau of Education Bulletin, No. 29, 1928).

Since 1920 the definition of equalization made by Strayer and Haig and applied by Mort has been widely adopted. The prevailing tendency has been to define equalization in terms of a foundation program of financial support to be made available to all districts. The ultimate objective has been to make available to all school districts the level of support available in districts of average wealth or the level which is typical of expenditure levels in a state. Although such a definition of equalization is not subject to objections which can be raised against a minimum educational program defined in detail, it does not by itself guarantee children an adequate program. The program must be accompanied by other measures as will be shown in later chapters.

The complexities and vagaries of the equalization principle have been shown in the foregoing discussion. The varying emphases on citizenship preparation (public welfare) and individual rights to an equal opportunity have been brought out. The assumptions regarding decentralization and centralization have been implied. The range in definitions from identical offerings or outcomes to the mere elimination of the worst extremes have been pointed out. The varying emphases upon the equalization of educational opportunities and upon equalization of support have been seen. Definitions conceived in terms of a detailed educational program have been cited.

IMPLICATIONS FOR EXPENDITURES

Application of the equalization principle under the most ideal conditions would increase public school expenditures. At the very least, opportunities have to be leveled up to average practice, if not to an adequate level, and in most states average conditions would have to be improved if adequate opportunities are to be provided for all citizens. However, equalization applied under conditions of extreme decentralization becomes extremely expensive in relation to the results achieved. The Regents' Inquiry in New York State found that the state "has perpetuated a complicated and ineffective local school district procedure for the management of school revenues. New York cannot hope to attain even a relative equalization of educational opportunity or financial support without first creating administrative units and at-

tendence areas within which an adequate educational program equitably financed may be projected."³³

EQUALIZATION AND ADEQUACY

Under a decentralized governmental structure the only way to attain adequacy in public school facilities is through striking a balance between the adaptability principle and the equalization principle as shown in Part III. As in private industry, producer and consumer standards are the determiners of the kind of education provided by government. Standards depend upon insights into human nature, the economic and social potentials of education, the needs of our society and the educational process, and related factors. The gradual expansion of the knowledge and skill of educational practitioners and the even more gradual increase in public understanding of what schooling can, could, or should do in a society, nation, state, or community have raised our standards of adequacy. States and communities that have been alert to recognize and realize the potentialities of schools, the "lighthouses," provide the contrasts essential to dramatizing the extreme inadequacies in American education. Although forces do attempt to level schooling toward the lower extremes, the pull of the higher standards in the long run seems to be the more potent force. The history of education reveals a struggle toward higher and higher concepts of what constitutes an adequate level of education.

FISCAL INDEPENDENCE

Most school districts in the United States are independent of other units of local government. The voters or their representatives determine the school budget and the local tax levy for schools. In many cities the school systems have varying degrees of fiscal independence, i.e., municipal officials have some powers over the budget, the levy, or indebtedness, but not complete control. In some cities and in some states the schools are subject to almost, if not complete, control by municipal or other local officials.³⁴

³³ Grace and Moe, *op. cit.*, p. 215.

³⁴ See E. C. Bolmeier, "Legal, Illegal, and Extra-Legal Degrees of Fiscal Dependence," *American School Board Journal* CXIX (Aug., 1949), 22-24 and 68.

BASIS FOR THE POLICY

The policy of fiscal independence for school government is derived from the concept of education as a state function in which the local school board is considered a state agency of local jurisdiction. There is no inherent right to home rule. Municipalities and school districts both are creations of the state with powers which may be increased or diminished. The units themselves may be abolished or reorganized by the state. In the case of school districts the state has not relinquished its responsibility for education but has created agencies to carry it out. According to Mort and Reusser, state regulations in school matters remain supreme over city home-rule charters; all local school officers are state school officers; local school officers are responsible to all the people of the state; and local school agencies have the prudential responsibility of protecting the interests of all the people in individual school districts.³⁵

That citizens and school boards must be independent of political controls in providing public education has become a cardinal principle of public education in American democracy. In general, the American people have been less willing to tolerate the evils of politics in the public school system than they have in government in general.

The chief reasons for making the schools independent of political controls are these: (1) Education is more complex than all other governmental functions put together. Policy formulation in education requires the undivided attention of a board appointed specifically for that purpose. (2) Education is a function which requires continuity of policy. Separate boards only part of which come up for election or appointment in any year tend to provide the needed continuity. (3) The education of a future generation is such a fundamental and complex life activity that educational issues should not be mixed with other more or less temporal local issues in an election. To mix educational issues with other political issues often means that decisions on education are influenced by decisions on wholly extraneous matters. (4) The most important means democracy has for correcting political and social evils is through education. If education is controlled by

³⁵ Mort and Reusser, *op. cit.*, pp. 54 ff.

boards of education separate from other political units and appointed or elected for long terms, it usually is easier to prevent a corrupt political machine from using education to perpetuate itself after it has ceased to serve the best interests of the citizens.³⁶

Other reasons advanced for political independence are: (1) "scientific instruction is independent of politics"; (2) "the humanities have their independent imperatives"; (3) "the teaching of controversial issues calls for judicial prerogatives"; (4) "preparation for citizenship transcends all partisan limits"; and (5) "to education is entrusted enduring interests and values."³⁷

OBJECTIONS TO THE POLICY

Political scientists generally oppose the principle of fiscal independence. They hold that there should be unified local government over a given area with a single budget in which one demand can be weighted against another. The people must be the final judges of the wisdom of the decisions made. They hold that divided control leads to duplication, waste, complexity, competition, and the expansion of one function at the expense of others. They hold that education is a state responsibility only to the extent that states help finance it. Municipal officials object to the type of fiscal independence which makes them assume responsibility for tax levies over which they have no control.

RESOLVING THE CONFLICT

Research has attempted to resolve the issue, but the evidence gathered to date by either educators or political scientists is not very convincing to a neutral observer. Until better evidence becomes available, the decision must be made in terms of realities and principles which seem reasonable. On the side of realism, the lack of professional public administration and the advance toward professional school administration would seem to favor not disturbing existing arrangements for fiscal independence. The fact that most school districts are not coterminous with other units and the fact that most local govern-

³⁶ See Educational Policies Commission, *The Unique Function of Education in American Democracy* (1937), pp. 101 ff.

³⁷ *Ibid.*, pp. 113 ff.

mental units are as outmoded as school districts present real obstacles to integration at the present time.

Although the principles of coördination and coöperation among units of government serving the same area can be accepted, certain other principles demand independence in school government:

1. Education must be viewed as an indivisible whole and cannot be classified as state or local; there is no basis for subordinating school government to government that can be classified as local.

2. The concept that education is a state function really means that all communities are educating future citizens of other localities and the type of education offered to citizens who remain in any locality affects other communities in private enterprise economy and a popular government.

3. Insofar as is consistent with the foregoing principle, control and operational responsibility should be kept close to the people to provide the participation essential for the preservation of democratic government and to provide the freedom essential for adjustment, invention, or adaptation.

4. The exercise of local initiative in education requires fiscal independence and taxing power; otherwise, long-run results will be subordinated to present fiscal or political considerations.³⁸

FISCAL DEPENDENCE AND GOVERNMENTAL STRUCTURE

Where school boards are fiscally dependent upon some other agency of local government having power to reduce or alter the school budget, the school board becomes a redundant appendage of local government. Its function as a policy-making body is transferred to another agency and it becomes largely an advisory body or administrative board. Since its administrative functions should be delegated to professionally trained administrators, it is difficult under such conditions to defend its continued existence. The agency having fiscal authority finally determines educational policies; but since this is done indirectly, it can escape being held responsible. It would be far better to give the body having authority to control the funds of the schools the responsibility

³⁸ See P. R. Mort, *Fiscal Policy for Public Education in the State of New York* (1947), ch. V.

for determining the policies of the schools. This is the ultimate outcome of fiscal dependence.

EFFECTS

There are no significant differences in expenditure levels between fiscally independent and fiscally dependent systems when allowance is made for other factors. However, the fiscally independent systems seem to be somewhat more responsive to the ups and downs of the economy.³⁹ This finding hardly justifies the fears of those who oppose fiscal independence.

STATE SUPERVISION AND LOCAL RELATIONSHIPS

The willingness of states to delegate responsibility and taxing power to local units and to stimulate local action and taxation for schools has always been tempered by a prudential principle and at times a distrust of local ability to exercise prudence in financial affairs. The prudential principle is concerned with solvency, economy, maximum returns, and protection of funds. States have tended to emphasize this principle in state and local relations. States too have retained close oversight over the educational function, its structure, management, and financing. As will be shown later (Parts II and III) such oversight and prudential concern have brought into being conflicting controls and centralizing tendencies which sometimes destroy the advantages of decentralization without attaining the advantages of centralization. It is true that such tendencies grow out of extreme decentralization and unsatisfactory local units, but they tend to persist after local government has been reorganized.

There are two classes of state fiscal controls which affect schools: (1) controls on total public spending which affect education either directly or indirectly, and (2) controls which specifically apply to public school expenditures. In both these classes are included restrictions on state and local taxing power, budgetary review, mandatory legislation, state approval of expenditures, debt limits, and preaudits. In either class there may be restraints which shift control over educa-

³⁹ H. B. Woodward, *The Effect of Fiscal Control on Current School Expenditures* (Ms., 1948), p. 23.

tional policies from school authorities to some other governmental authority. All of these except budgetary review will be taken up in later chapters.

BUDGETARY REVIEW

State budgetary review exists in many forms. First, there are provisions giving state education departments power to review local school budgets under certain conditions, for example, when local administration or financing breaks down. Second, there is review of all local budgets by state school authorities. Third, there is review by some state authority other than the education department under certain specified conditions. Fourth, there is state review by a noneducational agency of all local budgets. Fifth, there are constitutional or statutory controls over the amount of increase in the annual budget, for example, requiring state approval of an annual tax increase in excess of a stated percentage. Sixth, there is state review limited to certain budget items such as debt service.

There are a number of state provisions aimed specifically at reviewing local school budgets.⁴⁰ North Carolina during the depression (1933) gave complete control over county and city school budgets to a state school commission. The levying of local taxes to supplement state support was made difficult.⁴¹ Fifteen states have had review of local budgets through some state agency which has the power to change either the levies or the appropriations; eight have required state approval of the amount and purpose of bonds and loans.⁴² In Delaware, North Carolina, and West Virginia city school districts must submit their budgets to a state agency. In Pennsylvania, second-, third-, and fourth-class districts must submit their budgets to the state education department.⁴³ In New Mexico the state school budget auditor has power to review all school levies and budgets.⁴⁴

In other states the state review of local budgets required for all local

⁴⁰ See T. Covert, *Financing Schools as a Function of State Departments of Education* (Bulletin 1940, No. 6, Monograph No. 3, U. S. Office of Education, 1941).

⁴¹ G. D. Strayer, Jr., *Centralizing Tendencies in the Administration of Public Education* (1934), pp. 25 ff.

⁴² R. W. Holmstedt, *State Control of Public School Finance* (1940), p. 25.

⁴³ N. B. Henry and J. C. Kerwin, *Schools and City Government* (1938), p. 113.

⁴⁴ Wylie Kirkpatrick, *State Supervision of Local Finance* (1941), p. 61.

units includes school districts. In Indiana and Iowa state review is required upon the petition of a small number of taxpayers.⁴⁵ Budget review for local units having fiscal difficulties is provided in Alabama, Indiana, Maine, New Hampshire, New Jersey, and North Carolina. In California, Colorado, and New Mexico increases of over 5 percent in expenditures or the tax levy in any one year are not permitted without state approval.⁴⁶

IMPLICATIONS OF SUCH CONTROLS

States have extended mandates or minimum standards in educational affairs while at the same time tightening controls on local finance. Fiscal controls sometimes have made it impossible for local units to adhere to educational controls. It is also clear that every extension of state controls decreases the necessity for the complicated machinery of local control in education. State-wide tax limits, state control over local budgets, or detailed state control of the educational program through mandatory legislation or state education-department regulations and examinations make school districts useless appendages. All the inefficiency, waste, and expense that go with local districts are retained without the advantages which come from local freedom and initiative.

SOUND STATE AND LOCAL RELATIONSHIPS

All states apparently believe in the superiority of local operation as applied to schools. Even the states with the most rigorous central controls and strongest tendencies toward centralization have retained the structure of local government for schools. Apparently such states have not intentionally substituted centralization for local control. It is probable that controls have been adopted piecemeal to meet specific pressures or crises, such as demands for reduced governmental spending, general tax reduction, limitation of certain types of taxation, correction of an evil, improvement of services, breakdown of local government, or some other problem. A control is adopted for a specific purpose without considering the whole structure and functioning of

⁴⁵ *Ibid.*

⁴⁶ W. J. Shultz, *American Public Finance* (2nd ed., 1938), pp. 135-136.

local government and relations between central and local government. Furthermore, controls in the past have been arbitrary and restrictive. They tend to weaken local government, thereby creating a demand for further controls.

The fundamental principle stressed here is that the only sound method of controlling education and school expenditures under decentralization is to strengthen the structure, revenue system, functioning, and management of local units of government. The remainder of this book will be devoted to a discussion of the changes and improvement which must be made in governmental structure, revenue systems, central fiscal policies, and local financial management to attain adequacy, efficiency, and economy in local operations.

Until the many reforms are brought about, central oversight of local school operations should be limited largely to persuasive, advisory, and technical services aimed at the attainment of high levels of service and efficiency in local operations. Assistance in achieving high personnel standards; provisions for pre-service and in-service preparation of personnel; technical assistance available to localities in a consultative and advisory capacity only; and other coöperative measures should be used. This is the position taken by the Committee on State-Local Relations of the Council of State Governments.⁴⁷

LOCAL COÖRDINATION AND COÖPERATION

The fact that school districts have fiscal independence does not relieve them of fiscal responsibility. School authorities must be willing to answer to the people for the school tax rate. School officials should attend budget hearings on municipal budgets; municipal officials should be informed on school budgets. Both should know the new effects of all spending, past and present, upon local taxes in any one year and govern their budgets accordingly. There should be avenues for exchanging budgetary data among all units of local government serving a given area.

Much duplication and overlapping should be eliminated. Tax administration and collection should be unified in one agency. There should be one central treasury serving a given area. Purchasing should

⁴⁷ Council of State Governments, *State-Local Relations* (1946), Part II.

be centralized, providing that purchasing is done by specifications and bidding, and schools can establish their own specifications. Architectural, engineering, and specialized maintenance services should be centralized, except that school authorities should be free to establish specifications for buildings insofar as the instructional program is affected. Legal services, accounting services, many aspects of personnel service, and many other overhead expenses should be pooled. Co-operative arrangements should be worked out for such overlapping services as libraries, welfare, health, recreation, juvenile-delinquency control, safety, and services for out-of-school youth and adults.⁴⁸

CONTROL AND THE FINANCING OF SEPARATE SCHOOLS

The public financing of separate schools for religious groups or races in a decentralized school system is a most expensive and wasteful practice. The maintenance of separate schools for Negroes in the southern states has increased overhead, duplicated plant, made impossible maximum use of personnel and material, and made it impossible to attain maximum educational returns for money spent. If the policy is extended to religious bodies, the waste is increased many fold. Competition leads to increased segmentation until there may be as many schools in a community or a city block as there are denominations. This was the condition in New York City before 1842, when the policy was abandoned. Furthermore, there is no way of preventing religious bodies from diverting school funds to other church purposes indirectly. Public funds are used to erect plants whose titles are vested in private corporations. When a group asks public financial support for its schools, it asks for the following:

1. The abandonment of the policy of direct democratic control over education by the citizens, the citizens' taxing themselves for schools under the control of individuals, corporations, churches, or societies independent of the whole body politic.
2. Abandonment of the policy of publicly financing only one school system in a community and only one school in a neighborhood; the citizens' taxing themselves to support as many school systems as there are religious denominations or other groups which want separate schools.

⁴⁸ See Educational Policies Commission, *Social Services and the Schools* (1939).

CONTROL ISSUES

Because most of our thinking on the state is imported, much of the discussion of institutional relationships in the United States is based upon false assumptions. State, to us, means the collective will of all the citizens, not in the state unit alone, but in each subdivision of the state. The will of the citizens in any governmental unit may be that of the majority, but in most instances it is a compromise between a majority and one or more minorities. Militant minorities prevent a majority from becoming oppressive. Because citizens of the states as wholes have conceded a maximum of control to citizens in the various local governmental units, decentralized, direct, democratic control over education has characterized the United States. Yet much of the discussion of state relationships presumes a centralized superimposed state which imposes its authority upon the citizens.

Direct decentralized democratic control over publicly financed education enables citizens to change any type of education which fails to meet their needs. Under democratic control, a government which fails to meet the needs of its citizens cannot use education to perpetuate itself after it has outlived its usefulness. A centralized or absolutist government or church, on the other hand, by controlling education can perpetuate itself long after it has ceased to serve the best interests of its citizens or members.

If the democratic state publicly finances schools under private and denominational control, decentralized democratic control over education, as we now know it, will disappear. Under the present policy, all citizens in a state or a school district, no matter to what church or group they belong, can vote on public school matters or sit upon public school boards. Private schools, on the contrary, generally are controlled by individuals, corporations, or societies. This control may reside in or be exercised by individuals within or without the democratic state or unit of government. The citizens of the state might by legislation impose external controls on such schools, but neither the majority nor the minorities in the democratic state or its subdivisions can participate directly in the control of such schools.

Furthermore, if any church or group is given public support for its schools, other churches or groups are placed at a disadvantage which

they can overcome only by opening publicly financed private schools of their own. A church or group which opens publicly financed schools of its own gains the following advantages over other churches or groups: (a) freedom from direct democratic civil control over its schools; (b) the right to impose religious tests upon teachers; (c) the right to use censorship and propaganda to promote its doctrines; (d) property rights to its schools; and (e) retention of the right of members of the church or group to vote on public school matters, sit on public school boards, and teach in the public schools free from religious tests. Members of a church or group, which does not open publicly financed schools of its own, cannot (a) escape direct democratic control over education; (b) impose religious tests upon teachers; (c) use public education to indoctrinate their beliefs; (d) acquire any property rights in public schools; or (e) vote on publicly financed denominational or private school matters, sit on the boards of control of such schools, or teach in such schools, free from religious tests. This factor and competition for pupils to increase state aid would hasten the disintegration of democratically controlled public schools.

If, in spite of these implications, the citizens of the democratic state should decide to grant financial support to private or denominational schools, they should protect the interests of citizens who prefer to have their children attend public common schools. If any group is given public financial aid for its schools, it should be required to relinquish its rights to participate in the control of public common schools and to teach in the public common schools. Perhaps the only practicable method of protecting citizens who prefer common schools under such circumstances would be to constitute them as a body corporate with powers to elect directors and employ teachers of their own choosing.

SUMMARY

Public school finance policy in the United States generally presumes governmental responsibility for education, decentralization, initiative and adaptability, equalization, fiscal independence for school government, and state oversight. Since emphasis upon any one of these concepts easily can impinge upon others, policy requires a delicate balancing of principles. Governmental responsibility and decentralization re-

quire reappraisal as economic, social, and international conditions change. Decentralization which does not promote the national and state interests in education as well as the local is a policy of dubious value. The national and state governments cannot neglect education by creating a decentralized structure for its government and operation. They must take positive leadership. State oversight and supervision should help and strengthen local government, not weaken it. Adequacy of provisions is the test of federal, state, and local policy in education.

Initiative and adaptability in educational matters and equalization efforts must be considered together. Improvement and adaptation require operational freedom, access to resources, heterogeneity, and encouragement for those who are willing to pioneer and take risks. The able are encouraged to move ahead—inequality is not an evil. The true function of the equalization principle is the leveling up of educational opportunity without leveling down opportunities. Equalization is the gradual attainment of higher and higher levels of adequacy as the dynamic principle reveals the potentialities of schools.

Education generally is considered a state function administered by state agencies of local jurisdiction independent of local government. This policy is not consistent with the principle of unified local government over a given area. Fiscal independence should be accompanied by fiscal responsibility and maximum coördination and coöperation with local government.

The maintenance of separate publicly financed schools increases overhead, precludes maximum use of plant personnel and materials, and duplicates services. Where government helps finance schools owned and operated by private corporations or groups, serious issues of control arise.

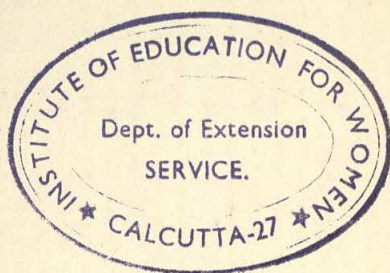
READINGS

American Association of School Administrators (2), ch. XIV; Brown (8); Carr (16), ch. II; Council of State Governments (31); Cubberley (35), chs. V–VIII, XIV–XIX, and XXIII; Cubberley (37), chs. V and XXVII; Cyr, Burke and Mort (39), ch. VI; Doughton (45), chs. II, IV, VIII, IX, and XII; Educational Policies Commission (50, 51, 52, and 53);

Edwards (55), chs. I, III, and VII; Garber (71); Grace and Moe (73), ch. III; Henry and Kerwin (81); Holmstedt (85); Kilpatrick (91 and 92); McGuire (101); Morrison (107), chs. IV, IX, and X; Mort (110), ch. V; Mort (111), chs. II, VI, VII-VIII, and IX; Mort and Cornell (114); Mort and Reusser (118), ch. V; National Education Association (129 and 189); National Survey of School Finance (135), chs. III, VII, and XII; Strayer (166); Strayer and Haig (167), chs. XII and XIII; Studenski and Mort (169); Swift (171), chs. V-VI, X, XIII, and XIV; Tax Institute (174).

..... Part Two

PUBLIC SCHOOL REVENUES



CHAPTER V

Public School Revenue Sources

Public school receipts are of two kinds—revenue receipts and non-revenue receipts. Revenue receipts are monies applicable to the current fiscal period that increase assets without increasing liabilities. Among revenue receipts are included: all monies received from taxes, other units of government, royalties, tuition, fines, penalties, gifts, bequests, contributions, rents, interest, fees, profits from sales, and admission charges. Nonrevenue receipts, on the other hand, increase indebtedness or reduce assets. They include all monies obtained from loans, bond sales, sales of property and supplies, and proceeds of insurance adjustments.

Revenue receipts also may be classified according to the governmental units from which they are derived: (1) basic or local school units, (2) counties, (3) states, and (4) the federal government. Where the county is also the basic school district, the first two become one. Within each unit revenue receipts may be classified as "tax" or "nontax."

TRENDS IN REVENUE SOURCES

The long-term trends in public school revenue sources may be summarized as: (1) a gradual abandonment of many early nontax sources of revenue; (2) the growth and decline of income from permanent school funds; (3) the growth and decline of local, county, and state property-tax support for schools; (5) the decreasing importance of earmarked state school taxes and the spread of state gen-

eral-fund educational appropriations; (6) the growing potency of the federal tax structure and the provision of annual revenues for public schools from federal tax sources; and (7) the development of local or county nonproperty-taxes to supplement or reduce property taxes.

1. *Abandonment of nontax sources.* Prior to 1825 public schools in this country frequently derived much of their revenues from nontax sources with a relatively small amount of taxation.¹ These earliest nontax sources of public school revenues included land endowments and rents, lotteries, gifts and bequests, rate bills, and services in lieu of rate bills or taxes.²

As early as 1659 Massachusetts had made land grants to support grammar schools. In 1672 Connecticut adopted the same policy. Town land endowments were provided during the Colonial period. After the formation of the union, Georgia (1783) reserved lands in each county to support free schools. New York (1782-1786) and Massachusetts (1788) reserved state lands for schools and the spread of the gospel. Pennsylvania (1779), Virginia (1784), and Kentucky (1798) made land grants for the support of academies.³ Such grants provided the precedent for later federal land grants.

Lotteries for school support were used in the eighteenth century and the first part of the nineteenth century. New York, as early as 1799, authorized lotteries for school support. Kentucky (1805-1808), Delaware (1810-1835), North Carolina (1814), Maryland (1816-1821), Mississippi and Michigan (1817), and Louisiana (1820) had lotteries for the support of education. This means of support, however, was gradually outlawed by antigambling legislation and public opinion.⁴

Before the establishment of tax-supported, free public schools, private gifts and bequests for schools were one source of revenue. Sometimes the gifts were given to individual schools or communities for schools, e.g., Robert Bartlett left the town of New London, Connecti-

¹ B. F. Pittenger, *An Introduction to Public School Finance* (1925), p. 347.

² E. P. Cubberley, *Public Education in the United States* (1934), p. 117.

³ F. H. Swift, *Federal and State Policies in Public School Finance in the United States* (1931), p. 177.

⁴ Cubberley, *op. cit.*, pp. 177-178.

cut, a bequest to support schools. Frequently they were given to societies to establish and maintain schools. In Colonial days there was the Society for the Propagation of the Gospel in Foreign Parts. After the Revolution schools were promoted by such societies as The American Sunday School Union, The New York Free School Society, The Philadelphia Charity-School Society, and the Infant School Societies.⁵ Today gifts and bequests to public schools are uncommon.

Rate bills or tuition charges were carried over from England and were used in Colonial Massachusetts and Connecticut, where they date back at least to 1643. The thirteen original states generally required parents to pay fees. In the New England states and western states settled by New Englanders they were used to supplement revenues from taxes and other sources. In many of the middle Atlantic and in all of the southern states, tax support was provided only for educating the children of paupers. Others were expected to pay for the education of their children. The result was that children of farmers and workingmen with small incomes received only as much instruction annually as the parents could afford. Cities and villages soon abandoned this method of support and secured permissive legislation to abolish rate bills. Gradually states made it a state-wide policy. Between 1827 and 1871 Massachusetts, Delaware, Pennsylvania, Florida, Vermont, Indiana, Ohio, Iowa, Illinois, New York, Connecticut, Rhode Island, Michigan, Arkansas, New Jersey, and Utah abolished rate bills. After the Civil War other states gradually abolished them.⁶

Among the services contributed in lieu of taxes in the early days were the supplying of fuel or wood, boarding the teacher, taking care of the fire, and making repairs to the school building. These gradually were abandoned for taxation as our monetary economy spread.

The downward trend in nontax revenues has continued. By 1890 the percentage of total revenues from this source stood at 13.7; in 1930 it was 5.4 and by 1946 it had fallen to 4.6. Now over 95 percent of public school revenues are provided by taxation.⁷

⁵ *Ibid.*, pp. 24 and 123 ff.

⁶ Cubberley, *op. cit.*, pp. 198 ff., and Swift, *A History of Public Permanent Common School Funds in the U. S.* (1910), p. 27.

⁷ *Statistics of State School Systems, 1945-1946*, p. 28.

GROWTH AND DECLINE OF PERMANENT FUNDS

Toward the closing decades of the eighteenth century and in the early decades of the nineteenth, it was generally believed that public schools could be supported by the income from permanent endowments.⁸ These were the logical extension of the early land-grant policy and the support of schools through gifts and bequests.

The first permanent state common-school fund was established in Connecticut in 1795, but it had its beginnings in colonial policies adopted in 1733 and 1750. Delaware began to build up such a fund in 1796. New York established its common-school fund in 1805 although it had created a literature fund as early as 1782.⁹

The Connecticut permanent school fund for a time almost fulfilled the purpose of such funds. By 1821 the fund provided enough income so that the compulsory two-mill town tax for schools was repealed. For a time the local tax practically disappeared. However, as population increased faster than income from the permanent fund, the revenues per pupil continued to decline, making it necessary to restore the compulsory tax in 1854.¹⁰ This experience proved the futility of endowments as a means of school support.

Before the limitations of permanent funds had become recognized generally, other states that received no federal land grants began to create them: Virginia (1810), Maryland (1813), New Jersey and Georgia (1817), New Hampshire and Kentucky (1821), Vermont and North Carolina (1825), Maine and Rhode Island (1828), Pennsylvania (1831), Massachusetts (1834), Texas (1845), and West Virginia (1863). By 1834 all of the thirteen original states with the possible exception of South Carolina had accepted the permanent fund as a means of school support.¹¹

In the remaining states permanent funds were encouraged by federal land and money grants. The Ordinances of 1785 and 1787 provided for the reservation of lands in the western territories for school support. Although Tennessee was admitted to the union in 1796, it

⁸ Cubberley, *op. cit.*, pp. 179-180.

⁹ Swift, *op. cit.* (footnote 6), pp. 178 and 195.

¹⁰ *Ibid.*, p. 195.

¹¹ Cubberley, *op. cit.*, p. 179, and Swift, *Ibid.*, p. 96.

did not receive a federal land grant until 1806, the year it established its permanent fund. Ohio, admitted in 1802, was the first state to receive its land grants, but it did not create its permanent fund until 1837.

The land-grant policy was extended to all western states with the exceptions mentioned below. However, all states were not treated alike under federal policies adopted at different times; some western and southern states received more lands than others. The original states and Kentucky, Maine, Vermont, and West Virginia contained no public lands. Texas on admission to the union retained title to its lands. Oklahoma was given a money grant in lieu of a land grant.¹² To the original land grants for schools the federal government later added grants of salt lands, internal improvement lands, and swamp lands. Thirty-nine states received over 154,000,000 acres of land from the federal government with an estimated value of more than one billion dollars.¹³

Land grants were supplemented by federal money grants. The most important of the later money grants were the percentum grants, the United States Deposit Fund of 1833, the Surplus Revenue Fund of 1837, and the Distributive Fund of 1841, the returned war claims and taxes, the mineral royalty grants, and the federal forest-reserve income. Only the last two grants were specifically designated for education. However, the others were frequently used to create or increase permanent school funds.¹⁴

Swift estimated the potential value of the permanent endowments at over \$2 billion. The original land area of the grants (state and federal) comprised 319,500 square miles. This nearly equals the total area of California, Oregon, and Washington. It is about equal to the total area of the states bordering the Atlantic ocean.¹⁵

Unfortunately, the endowment was lost or dissipated in many states. In many it exists only as a debt upon which the state pays interest out of current tax funds. In others, part of the fund is a state debt. In many states large losses have resulted from mismanagement—sales of

¹² Swift, *op. cit.* (footnote 3), pp. 12 ff.

¹³ *Ibid.*, pp. 26 and 59.

¹⁴ *Ibid.*, ch. II.

¹⁵ *Ibid.*, pp. 59–60.

land below real value, improper deeds and records, bad loans, unpaid loans and interest, diversion, misappropriation, bank failures, deflation, and even dishonesty and fraud. Swift cites examples of losses ranging from about \$6,000 in West Virginia and Wyoming to \$6,000,000 in California.¹⁶

Forty-four states in 1948 reported revenues from permanent funds or state indebtedness for such funds.¹⁷ Georgia, Maryland, New Hampshire, and South Carolina reported no income from permanent funds. Alabama, Illinois, Kentucky, Louisiana, Michigan, Mississippi, Ohio, and Tennessee acknowledge that the permanent fund is merely a state debt. Arkansas, Maine, and Missouri have used the funds to provide credit for the state. Part of the funds in other states, such as California, Delaware, Nevada, and Wisconsin, have have been used in this way.¹⁸

The percentage of total school revenues from permanent fund income has been declining steadily. In 1890 the percentage was small, only 5.5 percent. By 1920 it had decreased about 50 percent to 2.7 percent. By 1948 the percentage had dropped to less than 1.0 percent.¹⁹

3. *Growth and decline of property tax support.* The real contribution of state permanent school funds was their use to stimulate and establish local tax support for public education. Possession of the funds fostered state interest in education and made state responsibility for education the accepted policy in the United States. The funds were used at first to get schools established. They provided the first stable source of revenues for schools and kept schools going before local tax support became established.²⁰ The income generally was apportioned in a manner that required or encouraged local property-tax support for schools. Before the development of state property taxes for schools they gave the states a means for bringing about desired improvements and extensions of public schooling. These improvements and extensions themselves made increased local tax support essential.²¹

Massachusetts in 1647 made it mandatory for towns to establish

¹⁶ *Ibid.*, p. 65.

¹⁷ National Education Association, *School Finance Systems* (1948).

¹⁸ Swift, *op. cit.*, (footnote 3), pp. 63 ff.

¹⁹ U. S. Office of Education, *Statistics of State School Systems, 1945-46*, p. 28, and *School Finance Systems* (1948).

²⁰ Pittenger, *op. cit.*, p. 342.

²¹ See Swift, *op. cit.* (footnote 3), pp. 67-68.

and maintain schools, and in 1693 gave them power to levy taxes for school support. Similar laws were adopted in Colonial Connecticut and New Hampshire. The Connecticut Code of 1700 made local taxation for schools compulsory. Adoption of such laws, however, did not bring about immediate tax support. They were not always popular and rate bills and other nontax means of support persisted for a long time. What they did was establish the principle of taxation for the support of schools.²²

After the formation of the union, property taxation for schools at first was made permissive. In Massachusetts and Connecticut permissive laws were carried over from Colonial times. Vermont (1782), New Hampshire (1783), and New York (1795) adopted state-wide permissive laws. Other states granted taxing powers to particular cities or school districts, e.g., Rhode Island in 1800 gave Providence the power to levy school taxes. Pennsylvania, Maryland, and South Carolina conferred taxing powers on certain cities shortly after 1800. Optional state-wide laws were adopted in other states after 1820—Ohio, New Jersey, Missouri, Illinois, Rhode Island, Kentucky, Pennsylvania, Iowa, Mississippi, and Indiana.²³

Where state-wide permissive laws were passed, cities tended to take advantage of them, but rural school districts were slow to utilize their taxing power for schools. Hence, with the creation of state school funds and state aid for schools, local property taxes were made mandatory. New Hampshire made local taxes compulsory in 1789, followed by Connecticut in 1799, Vermont (1797 and 1810), New York (1795 and 1812), and Maine (1820). Only in New England and New York had compulsory local taxation for schools been established before 1820. After 1820 the policy was gradually extended to other states: Ohio (1825), Massachusetts (1827), Delaware (1829), New Jersey (1846), and Wisconsin (1848) made school taxes mandatory. Generally the provision was enforced by withholding state aid, requiring the tax in order to receive aid, or making it mandatory to match aid with an equal amount from local taxes.²⁴

²² Cubberley, *Public Education in the United States*, pp. 17 ff., and Swift, *op. cit.* (footnote 6), p. 31.

²³ Cubberley, *op. cit.*, pp. 181 ff.

²⁴ *Ibid.*, pp. 188–189.

Other state policies contributed to the growth of local property-tax support for schools. Until about 1875 states created local school taxing districts by the thousand. With the development of state educational authorities mandatory school laws, regulations, and standards requiring local support grew. Until 1920 there was a growing tendency to increase aid for special projects in which the states and later the federal government were interested. Since these grants generally were made upon a matching basis, the local property tax burden continued to increase.²⁵

Many states, where the county was not the basic local unit of school government, also imposed county property taxes to equalize educational provisions and tax burdens among school districts, or to supplement school district taxes. After 1825 such taxes spread among the western states, but they never became established in the New England and other eastern states. In the south the county generally has been an important taxing unit for schools.

Recognition of state responsibility for schools, the inequalities resulting from local taxation, the impossibility of securing enough state revenues from permanent funds, and the lack of interest in the very places where schools were most needed, caused states themselves to levy state school property taxes. Most states adopted or used state property taxes for schools after 1838.

Local property taxes for schools have been rising in the aggregate, but the percentage of total revenues from this source has been decreasing. Shortly after 1930 the peak was reached when over 72 percent of school revenues came from local property taxation. By 1946 the percentage fell to about 55 and the trend has been downward since then.²⁶

The percentage of public school revenues from county property taxes probably reached its height about 1920, when it nearly equaled the percentage from all state taxes, 11.4 percent as against 13.8 percent. Since 1920 the county trend has been downward, reaching about 5 percent in 1946 (probably lower than this now). The aggregate amount from this source increased until 1930, but it was reduced con-

²⁵ See ch. XIV.

²⁶ *Statistics of State School Systems 1945-1946*, p. 64.

siderably between 1930 and 1936. Since then there has been no pronounced upward trend.

State property taxes for schools have not always been reported separately, but the aggregate amount of all state property taxes continued to increase until about 1920. In 1925 thirty-two states still had state school property taxes and thirteen other states derived their state revenues in part from state property taxes. Since 1925 states have been abandoning state school property taxes—many states retired from any state property taxes, and property taxes have become insignificant in state tax systems. In 1948 only nine states had state property taxes for schools. The percentage of school revenues from state property taxes probably increased between 1850 and 1890. After that the trend has been downward, falling from nearly 17 percent in 1890 to less than 2 percent in 1949.

It is difficult to estimate when the peak was reached in local, county, and state property taxes for schools. Very probably it occurred about 1920, when the percentage probably exceeded 87. In 1930 nearly 78 percent of public school revenues came from local or county property taxes, but state property taxes probably raised only 5.6 percent. The percentage of school revenues from property taxes now has dropped to 55.0 percent or less.²⁷

Many factors have contributed to the falling percentage of school revenues derived from the property tax since 1930: (1) the breakdown of the local property tax during the depression, (2) transfer of functions from local units of government to the state, (3) increased state and federal aid and state-collected locally shared revenues, (4) more property tax exemptions, (5) new property tax limitation laws, (6) extension of limits upon local indebtedness, (7) fewer units of school government, (8) reduction in debt, and (9) the development of other sources of local taxes.²⁸

4. *Rise of state school taxes.* The precedents for state tax support for schools also had Colonial origins. State appropriations for education and the earmarking of state taxes for schools both date back to the seventeenth century. The Plymouth Colony in 1673 earmarked the

²⁷ See Table 4.

²⁸ See ch. VI.

proceeds of fishing licenses for school support. Connecticut in 1766 dedicated the arrears in liquor, tea, and other commodity taxes for schools.²⁹

TABLE 4. Percent of Public School Revenues from Property Taxation, 1890-1950

(Amounts in thousands)

Year	Local and County ^a		Estimated State ^b		Total Estimated	
	Amount	Percent	Amount	Percent	Amount	Percent
1890	\$ 97,222	67.9	\$ 23,700	16.8	\$ 120,922	84.7
1900	149,487	68.0	34,100	15.9	183,587	83.9
1910	312,222	72.1	49,100	11.3	361,322	83.4
1920	758,897	78.2	90,200	9.3	849,097	87.5
1930	1,645,688	78.8	117,400	5.6	1,763,088	84.4
1940	1,490,425	65.9	71,000	3.1	1,561,425	69.0
1944	1,646,498	63.2	45,700	1.8	1,692,198	65.0
1948	2,200,000	56.0	60,000	1.5	2,260,000	57.5
1950	2,500,000	54.0	65,000	1.4	2,565,000	55.4

^a From *Statistics of State School Systems 1943-1944*, p. 14. About 98 percent of these amounts are from tax sources. Figures, especially since 1940, include a small percentage of non-property local taxes. 1948 and 1950 figures are estimated.

^b Estimates based upon earmarked state school property taxes, earmarked nonproperty school taxes, and percent of state general fund revenues derived from property taxation.

Very early in our history the policy of earmarking state taxes for schools gained precedence over state appropriations. New York (1795-1800), Georgia (1817), Louisiana (1819) and Rhode Island (1828) made appropriations for schools. However, dedicated school taxes were more common. Connecticut in 1774 used monies from liquor licenses for schools. Delaware (1796) used tavern and marriage licenses for this purpose. New York (1799) levied the first state property tax for schools. Maryland (1812-1813) earmarked the bank tax for schools, a policy that was pursued in many other states—e.g., New Hampshire (1821), Vermont (1825), Maine (1833), and Indiana (1834). New Jersey (1817) and Texas (1845) set aside one-tenth of all state taxes for school support. New Jersey (1829) earmarked taxes on insurance and corporations for schools.³⁰

Until most states adopted state property taxes for schools after 1838, state appropriations or earmarked taxes for schools did not contribute

²⁹ Swift, *op. cit.* (footnote 6), pp. 24 and 31-32.

³⁰ *Ibid.*, pp. 86 ff.

much to school support. Licenses on peddlers, dogs, auctions, marriages, taverns, and other occupations had a very small yield. In 1870 the dog tax provided about \$25,000 for schools in Michigan, or less than 1.0 percent of total school revenues. Bank taxes and insurance taxes also did not prove to be revenue producers. Poll taxes fall in the same category. Generally the proceeds were added to the principle of the permanent funds along with fines, escheats, rents, forfeitures, and other miscellaneous sources of state revenues. Hence, they generally were used to stimulate local school property taxes.³¹

State property taxes for schools increased the importance of the state as a source of school revenues, but only temporarily. The monies usually were used to stimulate increased local taxation. Statistics for all states are not available prior to 1890, but there is evidence that local taxes gained on state taxes in individual states between 1870 and 1890. The percentage of school funds from state sources (mostly state taxes) decreased (1870 to 1890) in Arkansas (64.0 to 48.9), Maryland (63.9 to 34.4), Indiana (55.3 to 25.9), Ohio (24.8 to 19.0), New York (24.5 to 19.8), Rhode Island (23.1 to 13.1), and Michigan (13.3 to 8.6). California (21.6 to 51.6), Connecticut (9.8 to 19.9), Nevada (16.5 to 35.0), New Jersey (6.4 to 62.3), and Wisconsin (9.2 to 19.4) showed the opposite tendency 1870 to 1890. All of these except Nevada showed a downward trend in the relative importance of the state school tax after 1890, Nevada followed the same trend after 1920.³²

State taxation for schools had become generally accepted by 1890. All of the states except Vermont, Massachusetts, Iowa, Kansas, Montana, Wyoming, Colorado, Idaho, Washington, and Oregon had some state taxes for public schools by that date. Although the percent of public school revenues from state taxes or appropriations rose slightly between 1890 and 1895 (18.4 to 19.6 percent), by 1920 it had dropped to 13.8 percent. Yet in 1920 the only states without state tax support for schools were Colorado, New Mexico, and Wyoming.³³

During the thirty-year period from 1890 to 1920 the policy of

³¹ *Ibid.*, p. 87.

³² *Reports of the United States Commissioner of Education*, 1870, p. 22; 1890, pp. 86 ff.; *Statistics of State School Systems*, 1943-44, pp. 14-15.

³³ *Ibid.*

stimulating local school taxation through state action brought about drastic changes in the proportion of revenues derived from state taxes in many states. The percent of school revenues from state taxes or appropriations decreased over 50 percent in California, Florida, Indiana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Rhode Island, South Carolina, South Dakota, Tennessee, and West Virginia. In South Carolina the percentage fell from 82.7 to 15.2 and in Tennessee from 73.1 to 18.0. Arkansas, New Jersey, New York, Texas, Utah, and Virginia also had large decreases. Twenty-three states in all showed decreases. In 1890 eleven states provided over 40 percent of public school revenues from state sources; by 1920 there were only five that did so.³⁴

Relatively few states began to use state taxes to reduce the burden upon local property taxes before 1920—e.g., Arizona, Delaware, Michigan, Oklahoma, and Washington. Between 1890 and 1920 the proportion of public school revenues supplied by state taxes or appropriations in Arizona rose from 1.0 to 16.1 percent and has been rising steadily ever since, reaching 62.4 in 1944 (46 in 1948). In Delaware the percentage went from 1.9 to 33.1, mounting to 89.4 percent in 1944 (87 in 1948). The increase in Michigan was from 8.6 to 18.7, exceeding 50.0 percent by 1948. Oklahoma had no state taxes for schools in 1890; in 1920 the state provided only 3.3 percent of school revenue; but by 1946 it provided 53.2 percent. Washington had no state school taxes in 1890, but by 1920 its percentage stood at 13.0, rising to 69.2 percent in 1944. Georgia, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Nevada, Pennsylvania, and Vermont increased substantially the proportion of school revenues from state taxes between 1890 and 1920, but there was a downward trend in these states between 1920 and 1930.³⁵

After 1920 more states began to reverse the established policy of using state school funds to increase local taxation for schools. The percent of total school monies provided by state taxes or appropriations rose from 13.8 in 1920 to 15.8 in 1930, to 29.2 in 1940, to 31.9 in 1944, and to over 40 percent in 1950.³⁶

³⁴ See ch. VIII.

³⁵ *Ibid.*

³⁶ See Table 5.

The development of state tax support for schools followed the growth of state tax systems. Until 1920 the state unit was a relatively unimportant taxing unit compared with local government. In 1919 state tax collections amounted to only one-fourth of local tax collections. By 1936 state collections reached 50.0 percent of local collections. By 1944 state tax collections almost equaled local collections. By 1945 state tax collections were exceeding local collections.³⁷

TABLE 5. Trends in State School Taxes and Appropriations for Public Schools, 1890-1950^a

Year	Amount	Percent of Total School Revenues	Percent of Increase over Previous Decade
1890	\$ 26,345,323	18.4%	—
1900	37,886,740	17.2	44.1%
1910	64,604,701	14.9	70.7
1920	134,278,753	13.8	107.9
1930	329,312,434	15.8	145.5
1940	658,893,264	29.2	100.3
1944	831,968,626	31.9	—
1948	1,558,000,000	41.0	—
1949	1,700,000,000	42.0	—
1950	2,000,000,000	43.0	203.5

^a *Statistics of State School Systems, 1943-1944*, pp. 14-15. 1948-1949 figures based upon state appropriations and estimated local revenues. 1950 figures are preliminary.

The breakdown of the local property tax during the depression forced most states to assume a larger share of the tax burden for schools. States that imposed limits upon local property taxes or granted homestead exemptions were forced to provide replacement revenues. Other states enacted new state-aid laws for schools or liberalized the grants already being made. Between 1930 and 1940 the percent of school revenues from state taxes almost doubled.³⁸

Inflation accompanying the war brought about further increases in state tax support. The yield of the newer state taxes on incomes, general sales, selected commodities, and business increased with rising incomes. Rent ceilings, tax limits, and increased property-tax exemptions added to the traditional slowness of the property tax to adjust to new

³⁷ See ch. VIII.

³⁸ See Table 5.

price levels. Between 1940 and 1950 state taxes for schools increased over 200 percent.³⁹

The practice of dedicating certain state taxes for schools arose from the desire to keep the schools free from politics, and from the high degree of independence from other units of government given school government in most states. The rise of state education departments, the mismanagement of permanent funds by politicians, the lack of continuity in educational policy from legislature to legislature, the desire for stable state school funds, political state administrations, and corrupt politics caused school authorities and interested citizens to demand the extension of "earmarked" state taxes for schools. When it became obvious that decentralized local tax support was resulting in extreme inequalities in educational provisions and tax burdens and that the income from permanent funds would not suffice to correct inequalities, state and county school property taxes earmarked for education were advocated.⁴⁰

With the development of new sources of state tax revenues another reason for earmarking certain taxes for schools took on significance. Associating schools with the new taxes was one way of making them acceptable politically. Income taxes, inheritance taxes, business taxes, sales taxes, severance taxes, and others were sold upon this basis. Most states at some time have relied upon earmarked taxes for most state school revenues.

Since 1933 the trend has been away from earmarked state school taxes. New taxes adopted after that date generally have not been dedicated in part to schools. The number of states with earmarked state school taxes has declined. In 1948 only ten states continued to get most of their state school revenues from earmarked tax sources.⁴¹

This reversal in trend has resulted from many factors: (1) the abandonment of state property taxes, (2) the severe reductions in earmarked tax yields during the depression, (3) the improvement of state budgetary practices, (4) the improvement of state administration, (5) the spread of equalization aid and predictable amounts of

³⁹ *Ibid.*

⁴⁰ See ch. VIII.

⁴¹ *Ibid.*

state aid for schools, and (6) the abandonment of earmarked taxes for other purposes.

5. *Federal taxation and school support.* The federal government has replaced local and state government as the dominant taxing unit in the United States. During the nineteenth century the national government derived most of its revenues from customs and excises and its tax revenues averaged less than 50 percent of local tax revenues between 1890 and 1918. The adoption of the corporation excise in 1909, the income tax in 1913, and the estate tax in 1916 changed its traditional fiscal position. Between 1918 and 1924 federal tax collections equaled or exceeded local collections. Since 1936 the federal government has been the most potent taxing unit. During the war years federal taxes were seven to eight times local or state taxes. In 1948 they were still about five times as great.⁴²

The expansion of the federal tax system has been accompanied by annual appropriations for schools from federal revenues, but the amounts have been small compared with the rise in federal tax collections and federal aid to states for other purposes. Under the Smith-Hughes Act passed in 1917 the national government provided its first annual appropriation for public schools, earmarked for vocational education. This amounted to \$1.7 million, or about 2 percent of total public school revenues. In 1948 the appropriation for this purpose was about \$25,000,000, or less than 1.0 percent of school revenues.⁴³

The regular appropriations have been supplemented by temporary or emergency funds for public schools since 1933. Such funds were used during the depression to keep schools open in certain areas, to maintain adult education classes and nursery schools, to build school buildings, and to provide recreation programs. In 1940 funds were made available for defense training and under the Lanham Act (1941) assistance was provided for buildings, preschool facilities, maintenance and operation of schools and extension of services in war-affected areas. Appropriations for school lunches began in 1943.⁴⁴

Available statistics do not show the full extent that federal emer-

⁴² See ch. IX.

⁴³ See Table 6.

⁴⁴ *Ibid.*

agency appropriations have contributed to public school revenues. In 1936, for example, only \$9,850,000 of school revenues is reported from federal sources. This probably includes only the regular appropriation for vocational education as shown in Table 6. In 1944 only \$35,886,000 from federal sources is reported; the appropriation for vocational education amounted to \$21,768,000, leaving only about \$14,000,000 of emergency assistance reported. Yet, the emergency aid, including Lanham funds for current expenses, probably exceeded \$125 million that year. It is true that not all of these funds went to public schools, but they must have received close to \$100 million.⁴⁵

Total federal appropriations for public schools in the states probably have averaged over \$100 million a year from 1936 to 1946. From 1934 to 1940 most of these monies were provided for public school building construction. Between 1942 and 1946 over \$100 million a year was provided for current expenses, the appropriations for defense training being the largest, with the school-lunch appropriations exceeding the vocational funds after 1943. The percent of public school revenues (excluding appropriations for buildings) derived from federal sources probably reached its highest point in 1942 or 1944. During these years the federal appropriations must have been close to 5.0 percent of total public school revenues.⁴⁶ The \$300 million of general federal aid proposed in 1949 would bring the total to nearly \$400 million or nearly 10 percent of total school revenues.

6. *Locally administered nonproperty taxes.* The latest development in public school finance is the use of new local nonproperty taxes. The growth of suburbs, property valuation losses resulting therefrom, property tax limits, property tax exemptions, and the already heavy property tax forced some cities during the depression to seek new taxes to meet relief costs. Inflation accentuated their fiscal difficulties and the adoption of new local taxes became widespread. Cities began to adopt taxes that formerly had been left to the states.⁴⁷

Since 1940 hundreds of cities have adopted new local taxes. On the west coast, city sales taxes have become common. In the southern states, city business licenses have become general. All over the country

⁴⁵ See Table 6.

⁴⁶ *Ibid.*

⁴⁷ See ch. VII.

the number of cities levying taxes on liquor, tobacco, gasoline, public utilities, admissions, pinball machines, business, occupations, horse racing, automobiles, juke boxes, hotel rooms, meals in restaurants, vending machines, and luxury taxes has been increasing. Although the new local taxes generally have been confined to cities, Pennsylvania (1947) authorized school systems to levy nonproperty taxes and New York State (1947) authorized counties to levy a number of local taxes for educational purposes.

Where school districts are independent of municipalities the new local taxes have not benefited them directly. However, in such fiscally

TABLE 6. Amount and Percent of Total Public School Revenues Reported from Federal Sources Compared with Federal Appropriations for Schools, 1920-1950

(Amounts in thousands)

Year	Federal Revenues for Public Schools ^a		Regular Appropriations for Public Schools ^b	Emergency Appropriations for Schools ^c	Appropriations for School Buildings ^d
	Amount	Percent	Amount	Amount	Amount
1920	\$ 2,475	0.37%	\$ —	\$ —	\$ —
1930	7,334	0.4	—	—	—
1934	21,548	1.2	7,458	16,050	35,413
1936	9,850	0.5	10,387	30,300 ^e	183,957
1938	26,535	1.2	21,776	34,529	90,174
1940	39,810	1.7	21,776	35,805	55,428 ^g
1942	34,305	1.4	21,768	118,490	25,847 ^g
1944	35,886	1.4	21,768	93,122	— ^h
1946	41,378	1.4	21,768	121,282 ^f	— ⁱ
1950	—	—	25,000 ^j	60,000 ^j	—

^a As reported in *Statistics of State School Systems*.

^b As reported in U. S. Office Leaflets—No. 45, 1935; No. 30, 1938; No. 61, 1941; No. 70, 1944; No. 76, 1945; No. 77, 1946; and No. 79, 1948. Appropriation for vocational education. Does not include royalties, national forest sales, or land grants.

^c Same source as ^b.

^d Same source as ^b.

^e No data for 1936. Figure is taken from Heer, *Federal Aid and the Tax Problem*, p. 21. This figure and the figures for 1936 to 1940 are the amount allocated for educational projects under the W.P.A., part of which were under the auspices of public schools. The figures 1942 to 1946 include deferred training and school lunches largely under public auspices, but not entirely.

^f Lanham funds included for 1946 only.

^g 1940 and 1942 figures include colleges.

^h Between 1941 and 1942, \$123,358,887 of Lanham funds were used for school facilities in war-affected areas.

ⁱ Apparently no Lanham funds were used for construction in 1946.

^j Estimated.

independent school districts the new local taxes probably have given the schools more property tax leeway. In certain fiscally dependent school districts where schools are supported by appropriations, such taxes now constitute a large part of local tax revenues.

CURRENT AND FUTURE SOURCES⁴⁸

Public schools are approaching 100-percent support from taxation. The local property tax still provides over half of total school district revenues. New local, nonproperty taxes will reduce this percentage somewhat, especially in cities. The local property tax will continue to be an important source of revenue for schools, but both the tax and its administration can be improved. States now provide on the average over 40.0 percent of public school revenues almost entirely from nonproperty taxes. It is probable that the trend toward increased state support will continue. State tax systems and tax administration, however, in most states are in need of reform. Lack of fiscal capacity in some states, interstate competition, and heavy federal taxes limit what states can do. The schools eventually must rely more upon the federal tax structure and revenue system for part of their revenues. Federal-state and interstate tax coordination and cooperation are essential.

NONTAX SOURCES

The only states continuing to derive over 5.0 percent of their total school revenues from nontax sources with few exceptions are the states with large land grants or permanent endowments such as Montana, North Dakota, South Dakota, and Wyoming. Population growth, lower interest rates, the decreasing value of the dollar, and higher expenditures will reduce the importance of permanent fund income even in these states. Today the annual expenditures for public schools generally exceed the original value of endowments. Probably the best use that can be made of such endowments today is to use the capital to make loans to school districts for school building construction and to use the income to help finance the contribution of the state toward capital outlays.

⁴⁸ See National Education Association, Research Division, *State Legislation Affecting School Revenues, 1944-1948* (Research Bulletin, Vol. XXVII, No. 3, 1949).

Other sources of nontax revenues also are not likely to increase in importance. Nonresident tuition is disappearing with the creation of larger units of school government and the extension of state aid. Interest rates continue to remain at a low level. Service charges violate the free-school principle and tend to disappear. Gifts or bequests are very uncommon today.

LOCAL PROPERTY TAXES

In all of the New England states the town or city property tax continues to be the main source of school revenues. Yet, all of them have increased state tax support recently. Industrialization eventually will force a shift of more of the tax burden to state sources if public schools are not to deteriorate in these states. Connecticut, Massachusetts, and Rhode Island are among the states with the highest ability to pay state taxes. Maine, New Hampshire, and Vermont can increase state effort, but they may need help from the federal tax system. Illinois and New Jersey are the only other industrial states that still support schools largely by school district or city property taxes. However, New York and Pennsylvania still lean toward predominantly local tax support. All have the ability to shift a substantial part of the burden to state taxes. The same condition prevails in certain mining states—Colorado, Idaho, Montana, and Wyoming. Colorado, Montana, and Wyoming are above the average in taxpaying capacity and can provide substantial state support for schools. Idaho has below-average fiscal ability, but should be able to equal the effort of the state government in Arizona, New Mexico, or Utah, which do not rank high in fiscal ability.

The heavy reliance upon county and local property taxes in certain agricultural states, namely, Iowa, Kansas, Nebraska, North Dakota, Oregon, South Dakota, and Wisconsin, is to be expected. The property tax is best suited to rural economy. In recent years Oregon and Wisconsin have ranked above average in fiscal capacity and can shift more of the tax burden to nonproperty taxes. All of the others are around average in taxpaying ability, and they can shift more of the burden to state sources as the southern states have done. However, like the south, they may at times require substantial assistance from federal taxes to

provide a defensible program of education. They often rank among the states least able to provide tax support for schools.

The property tax is the only tax with a large yield which school districts are authorized to levy in most states. It is probable that this long-established, stable tax base will continue for many decades to finance local initiative. This purpose cannot be fulfilled if there is no leeway under the tax. Through state aid, transfers, local nonproperty taxes, and shared taxes, states must relieve the property-tax burden if home rule in education is to be preserved. Its yield can be enhanced.

The property tax can be improved; it is far from perfect. The general property tax in particular is hard to defend in theory. Property taxes generally are not well administered. In some areas property-tax reform could increase its yield; in most districts it would bring about more justice or equity in the tax burden. Creation of larger local taxing units with less overlapping not only would make possible needed reforms, but it would enhance the taxing strength of local government. Among the important reforms that should be brought about are: (1) a certain degree of economic classification of property, particularly in relation to intangible and tangible personal property; (2) improvement of assessments and the review of assessments; (3) modification or elimination of many exemptions granted to special interests; and (4) modernizing collection procedures.

STATE TAXES

Half the states soon will be providing the bulk of public school revenues from state taxation. Alabama, Arizona, Arkansas, California, Delaware, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Michigan, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, and West Virginia have or are close to this percentage now.

It is probable that the trend toward increased state taxes for schools will continue, but there are limitations to be overcome: (1) the heavy federal income tax in recent years has retarded the development of state income taxes, forced reductions in some states, and brought about the repeal of income taxes in a few states; (2) the federal government has been making steady inroads into the taxation of specific articles of

consumption, thereby limiting what states can do; (3) interstate competition in business and mobility of population has prevented the development of sound tax systems in many states and prevents the maximum utilization of existing taxes; (4) the general sales tax which the federal government has not usurped is being adopted by local units of government; (5) the tax systems in most states have developed piecemeal, reflecting political expediency, economic interests and competition, and nonfiscal objectives; (6) the lack of uniformity in and chaotic pattern of state taxes upon business restricts interstate commerce; (7) constitutional provisions often retard reform; and (8) state tax administration and research often has not kept up with the tax system.

Among the major reforms to be brought about in state taxation are: (1) the abolishing of remaining state property taxes, (2) federal, state, and local unit tax coordination, (3) interstate cooperation and uniformity to reduce evasion and promote interstate commerce, and (4) improvements in state tax administration and research.

General fund appropriations for public schools probably will continue to replace dedicated state school taxes. This will make schools dependent upon the state revenue system as a whole and should increase the stability of state school support. Of course, this depends in part upon the method of state school finance. The important consideration is a definite guarantee which school districts can predict in advance and budget. With such a guarantee to supplement the yield of earmarked school taxes from the general fund, one of the chief limitations of earmarking is removed. On the other hand, the loss of earmarked taxes probably will deprive schools of a flexible revenue source to meet inflation. Since the local property tax is slow to adjust to higher price levels, state appropriations must be made more flexible. Increased state appropriations for schools since 1940 indicate a recognition of this need. Unfortunately, not all states have done so.

FEDERAL TAXES

National concern over the maintenance of reasonable educational levels in all states and the lack of fiscal capacity to support a reasonable minimum educational program in many states will bring about greater reliance upon the federal tax structure for school revenues.

The fact is that many state taxes, because they indirectly enter into the cost of goods sold in interstate commerce, are shifted to other states. Most states now are helping to support schools in states like Delaware, Michigan, and New York. Although all states contribute to our economy, taxable resources frequently are concentrated in strategically located centers. Many states cannot tax income to which the state has contributed. Others rank low on any measures of taxpaying capacity, yet they make the greatest tax effort to support inadequate school programs.

The growth of federal taxation has had serious effects upon state and local taxation for schools. Heavy federal taxation upon incomes, business, and consumption items has increased resistance to these taxes on the state level. Some states have been forced to repeal their income taxes, others have reduced them, and states without them have been reluctant to adopt them. Taxes on liquor, tobacco, admissions, motor fuel, and other commodities have been restricted by federal excises. Furthermore, increased federal taxes upon consumption have shifted a heavier federal tax burden upon the states with the least fiscal capacity to support schools by their own effort. The field of business taxation has been usurped largely by the federal government. The only major state tax source not taken over by the federal unit is the general sales tax. Although it has not used this tax or the property tax, now left largely to local government, the total tax burden resulting from heavy federal taxes has made it difficult to secure increases in state or local tax revenues for schools.

A shift of a larger part of the burden of school support to the federal tax system would have many tax advantages: (1) The federal government is able to reach concentrations of ability to pay taxes; (2) The federal government is in a position to enforce its taxes far better than individual states; (3) The drawback of interstate competition and migration is eliminated; (4) The federal government is not limited as the states are in taxation by the federal constitution; (5) The administration of many taxes by the federal government reduces collection costs, inconvenience, and evasion; (6) The federal tax system conforms to the ability to pay principle more than state or local tax systems; (7) The federal government is in a better position to adjust its tax system to economic considerations; (8) The economic burdens

upon interstate commerce will be equalized by substituting a uniform system of federal taxes for the present hodgepodge of business taxes in the various states.

NEW LOCAL TAXES

It is difficult to predict what will happen to new, nonproperty local taxes. It is probable that the movement will spread until its weaknesses become serious. Intercommunity competition and avoidance through migration will hamper local governments. The high cost and inefficiency of local administration will prove to be a serious drawback. State-local tax conflicts will increase. Small units of government and rural areas will find the new taxes impractical. Inequalities in school services and tax burdens will increase. Communities that happen to be centers of economic activity will continue to be favored at the expense of contributing communities. It probably will be found that many of these new taxes should be reserved to the states or the largest units of local government.

The ultimate solution to the local tax burden probably will involve further transfers of functions to the states. Where it is desirable to retain a high degree of home rule over certain functions, increased state collected-locally shared taxes and grants-in-aid will be necessary. Only these steps will reduce the local tax burden so that home rule can be exercised.

It is entirely possible that some among the states of Alabama, Delaware, Louisiana, New Mexico, North Carolina, South Carolina, and Washington are not placing enough stress on local support. Some of these—North Carolina and Washington in particular—also have placed unreasonable restrictions upon local property taxes. They should modify these as North Carolina did in 1949, and rehabilitate the property tax for local government. Most of the group, except Delaware, have county school support. Certainly counties can administer certain local nonproperty taxes for schools.

SUMMARY

Public school revenue trends are characterized by (1) decreased dependence upon nontax sources, particularly permanent fund income; (2) abandonment of state and county property taxes; (3) in-

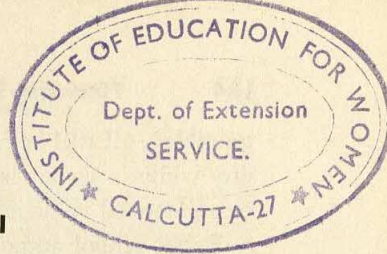
creased local property taxes, though these are becoming less important in the total; (4) greatly expanded state tax support which is becoming more important in the total; (5) substitution of general-fund state appropriations for earmarked state school taxes; (6) growth in emergency federal appropriations for schools with the regular appropriation continuing to provide a minor part of the total; and (7) development of local nonproperty taxes in some states.

Permanent fund income failed to become a major source of school support. Its major contribution has been to establish local and state tax support for schools. The state school property taxes were used to stimulate local taxation. Both the permanent funds and state school property taxes provided the precedents and principles underlying modern state school-support programs. Although the breakdown of the local property tax during the depression of the thirties shifted the emphasis in state support from stimulation to local tax relief, policy is again shifting toward strengthening local tax support. At the same time, the percent of public school revenues derived from state tax sources continues to rise (over 40 percent of the total in 1950).

It is probable that present trends will continue with the following exceptions: (1) The emphasis upon property tax relief should be replaced by efforts to rehabilitate the tax as a stable source of local revenues for schools; (2) Arbitrary restrictions upon local taxing power should be removed; (3) States must coöperate to avoid competition and evasion in taxation, thereby reducing dependence upon federal taxation for state and local functions; (4) Federal-state tax coördination must be achieved with enough federal school support to assure a defensible level of education in all states.

READINGS

Allen and Brownlee (1), ch. XI; Carr (16), ch. I; Cyr, Burke and Mort (39), ch. IV; De Young (43), ch. IV; Groves (75), chs. XXIV-XXVI; Hansen and Perloff (77), ch. II; Harris (78), chs. VI and VIII; Moehlman (103), chs. XII and XIV; Morrison (107), ch. XV; Mort (111), Supplement I; Mort and Reusser (118), chs. I and IV; National Education Association (130); Pittenger (149), ch. XII; Swift (171), chs. VIII-IX.



CHAPTER VI

Local Property Taxes for Schools

Before discussing the property tax as a source of public school revenues, it is necessary to define the tax. The general property tax is a "tax upon all wealth, tangible and intangible, which possesses exchange value."¹ It is levied at a uniform rate upon all property in a taxing jurisdiction according to an equitable (uniform) assessed valuation placed upon the property by the official assessors of the jurisdiction. Thus, it is called an *ad valorem* tax. In the United States it generally is a tax levied upon property *in rem*; it generally is an impersonal direct tax.

In actual practice the tax is not as broad nor as uniform nor as equitable as definition would imply. Real estate is not as apt to escape the assessment rolls as personal property, but some real property may not be assessed; and all real property is seldom assessed according to uniform standards or percentages of full value. Personal property, especially intangibles such as stocks and bonds, often is not assessed at all or is assessed at a lower percentage of full value than real property. In some states, actual practices are legalized by levying the tax on real property only, e.g., in New York. In other states, certain classes of real or personal property, e.g., household goods, are exempted. In other states, real or personal property is classified and different classes assessed or taxed at varying rates.

In this chapter general property taxes, real property taxes (on land, resources, or improvements), classified property taxes (tangible or in-

¹ H. M. Groves, *Financing Government* (1939), p. 57.

tangible), all will be referred to as property taxes whenever all property within a given classification is taxed at a uniform rate according to an assessed valuation within any given tax jurisdiction.

Public school authorities use about a third of public revenues obtained through property taxation. The property tax base is well suited for small units of school government. Unless this tax is improved, many of the advantages inherent in local school government will be lost. Those interested in public schools therefore have a vital interest in property tax reform. Weaknesses of property taxation or its administration may deprive schools of adequate support for decades. Inequities or injustices in the tax ultimately may foster attitudes inimical to public education. Too frequently public school officials accept the existing system of property taxation as a matter of tradition. Little thought is given to theoretical or administrative limitations or possible improvements. School authorities are obligated to understand the theory of the property tax, its strengths and weaknesses, its place in the total public revenue system, the major modifications which should be made in the tax, the relation of property tax reforms to home rule, and the potentialities and limitations of the tax as a source of public school revenues.

PROPERTY TAX TRENDS

The property tax is a large revenue producer which could not be replaced very easily. Except during the depression (1930-1935), the amount from the property tax has been mounting, but the tax is decreasing in fiscal importance, particularly on the state level. From 1860 to 1932 the total increased from \$94 million to over \$4.5 billion.² After the depression, property tax collections increased to pre-depression levels. Since the last war they have been rising again, reaching an estimated total of \$6.1 billion in 1948. Property taxes for schools followed the same general trend.³

The general rise in property taxes has resulted from many causes, including the growth of population, growth of cities and suburban areas, the resulting expansion of services of local government, manda-

² J. P. Jensen, *Property Taxation in the United States* (1931), p. 3; and U. S. Bureau of Census, *Financial Statistics*, 1932.

³ See Table 7.

tory legislation, demands for new services, higher standards of service, mounting debt, the growth of overlapping local units of government, and rising price levels and values. These same causes account for rising school taxes upon property, but certain state policies fostered growth: states made local and county school taxation compulsory, used state aid as a means for stimulating increased local school property taxation, passed mandatory school laws which increased local taxes, and created large numbers of school taxing districts.

TABLE 7. Property Taxes in the United States, 1902-1948^a
(Amounts in millions)

Year	States		Subdivisions (All)		School Districts ^c	
	Property Taxes	Percent of Total Revenues	Property Taxes	Percent of Total Revenues	Property Taxes	Percent of Total Revenues
1902	\$ 82	43.7%	\$ 624	— ^b	\$ — ^b	— ^b
1912	140	38.2	1177	— ^b	— ^b	— ^b
1922	348	— ^b	2973	— ^b	733	— ^b
1932	323	13.4	4361	83.1%	1231	81.2%
1942	271	4.4	4322	61.5	1079	60.0
1948	282	3.6	5800 ^d	56.0 ^d	1500 ^d	54.0 ^d

^a Source: U. S. Bureau of Census, *Financial Statistics, 1902-1942*.

^b Data not available.

^c Where these are separate from the county, city, or other unit of government.

^d 1948 local property taxes estimated by Census Bureau.

The property tax has become less important in state and local revenue systems. From a major source of state revenue prior to 1900 it has dropped to a minor source at the present time (3.6%). It also has become a less important source of local revenue, although it still remains as the major revenue producer for local governments, including school districts. In 1932 the property tax supplied 83.1 percent of the revenues of all units of local government and 81.2 percent of school district revenues. In 1942 it provided only 61.5 percent of the revenues for all local government and 60 percent of the revenues of school districts. By 1948 both these percentages had decreased still further.⁴

The decreasing importance of the property tax in state and local revenue systems in recent years is the result of states abandoning or decreasing state and county taxes, transferring functions like roads to

⁴ *Ibid.*

state units, increasing federal and state subventions or shared taxes, extending tax exemptions, tax limits and debt limits, reducing the number of overlapping tax units, and finding new local sources of tax revenues.

Property taxes are still the major source of public school revenues, generally providing over 50 percent of total receipts. Even in states which have large fund state school aid programs like New York, there are school districts which derive over 90 percent of their revenues from local property taxation. In Nebraska almost all school support is still derived from local property taxes. In Connecticut, Illinois, Iowa, Massachusetts, New Jersey, Rhode Island, and Wisconsin over 75 percent of school revenues are obtained from local property taxes (1948). At least twenty-nine states got over 50 percent from this source (state, county, or local) in 1947-1948. Moreover, the property tax is still the only major source of local tax revenues in most school districts. Between 1910 and 1920, over 98 percent of local tax revenues of schools were derived from this source.⁵ In 1942 school districts received 99 percent of their local tax revenues from the property tax base.⁶ In 1948 local revenues derived largely from property taxes accounted for an estimated \$2.2 million of public school revenues or about 56 percent.⁷

GROWTH OF SCHOOL PROPERTY TAXES

For over a century (1782 to about 1920), states adopted policies which stimulated and increased local property taxation for schools: state aid to increase local taxation, creation of large numbers of school taxing districts, adoption of county school taxes, and mandatory requirements which increased the local tax burden. During this period states also increased the total property tax burden by using state property taxes to supplement state aid for schools previously derived from the sale of school lands or income from permanent funds.

COUNTY PROPERTY TAXES FOR SCHOOLS

Prior to 1920 the imposition of and increase in county school taxes contributed to the rising property tax burden in about half the states.

⁵ W. R. Burgess, *Trends of School Costs* (1920), pp. 134 ff.

⁶ *Statistical Abstract of the United States, 1944-45*, p. 310.

⁷ Ch. V.

Such county school taxes substantially contributed to the property tax burden in at least a fourth of the states.⁸ Where the county is the basic taxing unit for schools, county property taxes are the local taxes for schools. In West Virginia the county is the local school taxing unit. The county is the major local taxing unit in Alabama, Florida, Georgia, Louisiana, Maryland, New Mexico, North Carolina, Tennessee, and Virginia.

In states where the school district, town, or municipality is the basic unit for school government, county taxes are levied to supplement local property taxes or to equalize educational provisions and tax burdens within counties. This policy was not followed in the New England or the eastern states with the exception of New Jersey, where an optional county property school tax was adopted in 1821. Although Mississippi and South Carolina are not strictly county-unit states, they have followed the traditional southern policy of utilizing county property tax support. In the western states county taxes of this kind date back to at least 1825, when Ohio adopted one. Among the western states that have at one time derived a substantial part of school revenues (sometimes over 50 percent) from county property taxes are Arizona, California, Colorado, Idaho, Montana, Nevada, Ohio, Oregon, Washington, and Wyoming. They also have been used in Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin. Over half the states have had county property taxes as well as local property taxes for schools.⁹ Arkansas, California, Ohio, and South Dakota no longer have any county property taxes for schools. At least fifteen other states have no county school property taxes. It is a very minor source of school revenues today in Iowa, Nebraska, Oregon, Texas, and Washington.

STATE SCHOOL PROPERTY TAXES

The failure of income from permanent funds to match population growth and educational expansion, the inability of weak districts to finance state mandates through property taxation, and extreme inequalities in educational provisions resulting from extreme decentralization caused states to adopt state school taxes (generally upon prop-

⁸ F. H. Swift, *State Policies in Public School Finance* (U. S. Bureau of Education, Bulletin No. 6, 1922), p. 4; and *Statistics of State School Systems, 1917-1918*.

⁹ *Ibid.*

erty). Ohio adopted such a tax in 1838, followed by Kentucky and Michigan (1850), New York (1851), Indiana and California (1852), Alabama (1854), and Illinois (1855).¹⁰ By 1925 all states had some state taxation for school support, thirty-two having dedicated state property taxes for schools. Connecticut, Georgia, Iowa, Kansas, Massachusetts, Mississippi, Missouri, Nebraska, New York, North Dakota, Rhode Island, South Carolina, and South Dakota had no special property tax for schools, but paid out school monies from funds derived in part from state property taxes. Only California, North Carolina, and Pennsylvania had no state general property tax support for schools in 1925 (but property taxes of some kind were still part of the state revenue system).¹¹ In 1925 the property tax provided the major part of state school revenues in at least a third of the states.¹²

DECLINE OF STATE AND COUNTY SCHOOL PROPERTY TAXES

The property tax has been declining as a source of state school revenues. Illinois and Connecticut repealed their school property taxes before 1875, but they continued to levy a state property tax which was used in whole or in part for school appropriations. New York (1901), California (1911), and North Carolina (1921) repealed their school property taxes, but continued the state property tax for the general fund from which school appropriations were made. Nebraska repealed its state property tax for schools in 1907 but failed to provide replacement revenues so there was no real relief for property taxation. Since 1925 the trend has been toward abolishing state school property taxes, the number of states with dedicated property taxes for schools dropping from thirty-two in 1925¹³ to nine in 1948. These include Alabama, Indiana, Louisiana, Nevada, New Hampshire, New Mexico, Tennessee, Texas, and Utah. The New Hampshire tax is a small state imposed-locally collected tax. Arkansas reported a small amount of state school revenue from property taxes in 1948. Wyoming adopted such a tax in 1949.

¹⁰ Data from studies of development of state support in various states.

¹¹ P. R. Mort, *State Support for Public Education* (1933), pp. 281 ff. Oregon's state property tax for schools was really a county and municipal tax collected by the state.

¹² F. H. Swift, *Federal and State Policies in Public School Finance in the United States*, pp. 132-134.

¹³ P. R. Mort, *op. cit.*, pp. 280-284.

The decreasing importance of property taxes as a source of state school revenue can be seen by comparing the data presented by Swift with data published since then by the National Education Association. Of sixteen states which derived 50 percent or more of their state school revenues from the property tax in 1925-1926 (Alabama, Arizona, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Nevada, Texas, Utah, Vermont and Washington), not one continued to do so in 1947-1948. Utah derived about 46 percent of its state school revenues from the property tax. The other states which still had a state school property tax generally had less than 10 percent from this source.¹⁴ In no state except Utah does the state property tax provide over 10 percent of total school revenues.

Since 1920 the percentage of school revenues from county sources has continued downward. From 11.4 percent in 1920 it dropped to 9.3 percent in 1934 and 5.6 percent in 1944 and to less than 5 percent in 1948. In 1947-1948, only Alabama, Florida, Georgia, Louisiana, Maryland, Montana, Nevada, Tennessee, and Virginia provided over 20 percent of school revenues from county property taxes superimposed upon local school taxes. Between 1920 and 1948 the percentage in California fell from nearly 40 percent to zero; in Arizona from over 35 percent to about 9 percent; in Washington from about 25 percent to 1.5 percent; and in Ohio from over 50 percent to zero. Most of the states showed substantial decreases.¹⁵

States have decreased the county property tax either by transferring the county responsibility to the state, providing county property tax replacement revenues, enacting property tax limits, or increasing property tax exemptions. Delaware took the lead in 1920 when it abolished the county school tax. In 1931 Oklahoma adopted an income tax to reduce state and local property taxes. California in 1932 assumed the \$30 per pupil formerly raised by the counties. Between 1932 and 1934 New Mexico, Ohio, Oklahoma, Washington, and West Virginia enacted drastic overall property tax limits that forced a shift of the county burden to the state. In 1933 North Carolina assumed the entire cost of a state minimum program. Between 1934 and 1937 Alabama, Arizona, Arkansas, Colorado, Idaho, Illinois, Kansas,

¹⁴ National Education Association, *State School Finance Systems, 1947-1948*.

¹⁵ U. S. Office of Education, *Statistics of State School Systems, 1945-1946*; and Council of State Governments, *The Forty-Eight State School Systems*, pp. 224-225.

Louisiana, Ohio, Oklahoma, South Dakota, Utah, and Wyoming used state taxes for property tax relief or reduction. Homestead property tax exemptions enacted between 1933 and 1937 forced a shift from county to state taxes in Florida, Georgia, Louisiana, Oklahoma, Utah, West Virginia and Wyoming. In 1942 Oregon provided that surplus revenues from the income tax should be used to reduce the county school tax.

RESTRICTIONS AND EXEMPTIONS

The declining importance of property taxes since 1920 is due in part to restrictive legislation. States have increased exemptions, imposed drastic tax limits in some instances, and tightened debt limits.

TAX EXEMPTIONS

There is little evidence to show that existing tax exemptions have generally resulted in property tax reductions. However, by increasing the rates on nonexempt property, extension of exemptions makes the property tax less elastic and thereby reduces the potential yield of the tax.

Certain tax exemptions, such as those for charitable, educational, religious, and scientific institutions, and governmental units, are very old. The practice of exempting personal property through failure to assess, partial assessments, or undervaluation is not a recent development. However, there has been a definite trend toward legally exempting personal property and increasing real property tax exemptions in recent decades.

Thirteen states adopted homestead exemption laws or constitutional amendments between 1933 and 1938. West Virginia (1933) provided that state and local taxes on homesteads are not to exceed 1 percent of assessed valuation. The same year Texas exempted the first \$3000 of the assessed valuation of property from the state tax. Minnesota (1934) limited the assessment of the first \$4000 of assessed valuation of homesteads to 20 to 25 percent of full valuation (state and local taxes). Mississippi (1935) exempted the first \$2500 of assessed valuation (state tax and some local). Florida (1935) granted a \$5000 exemption from state and local taxes; and Louisiana (same

year) granted a similar exemption to the extent of \$2500 depending upon replacement revenues. Wyoming (1937) granted a \$500 state and local exemption, while Alabama (1937) granted a \$2000 state exemption. Oklahoma (1937) granted an exemption of \$1000 from local taxes (no state tax). Arkansas (1937) provided the same exemption (state only). South Dakota exempted homesteads from state taxes; Georgia allowed a \$2000 exemption (1937); and Iowa, one not exceeding \$2500 similar to the Louisiana law. No other states have adopted the policy since 1938.¹⁶

Other types of exemptions continue to increase. California (1944) finally granted exemptions to religious, charitable, and hospital institutions. More states granted more exemptions to veterans, or disabled veterans, although some of these are temporary. Exemptions for other disabled persons and pensioners have been increased. Many states have granted new exemptions to public housing authorities. Exemptions for coöperatives and new industries have continued, but they are generally confined to the South. Another device for exempting property from taxation is the legalizing of underassessment. In 1941 nine states directed fractional assessments, ranging from 60 percent in Alabama and Iowa to as low as 1 percent in Vermont. Montana, Minnesota, and Ohio assessed different classes of property at different percentages of valuation. Washington, North Dakota, and Arkansas provide for 50-percent assessments.¹⁷

The number of states exempting all or part of personal property from taxation is growing. New York has exempted all personal property from taxation since 1933. Delaware (1939) also repealed all laws taxing personal property. Pennsylvania, Massachusetts, California, and Wisconsin exempt many classes of personal property. Intangibles in 1949 were exempt from practically all property taxes in sixteen states, and were fully liable for general property taxes in only five states. In 1939 nine states exempted all household goods and twenty-nine granted partial exemptions; only ten states granted no legal exemptions for personal property. Motor vehicles were exempted

¹⁶ J. M. Leonard, *et al.*, *Exemption of Homesteads from Taxation* (1937); and Legislative Reports of National Tax Association, Public Administration Clearing House, and Tax Institute.

¹⁷ Public Administration Clearing House, *News Bulletin*, March 10, 1941.

from property taxes in at least seventeen states in 1939. Personal property used for business and agriculture has been increasing. Since 1939 more states have adopted personal property exemptions.

TAX LIMITS

The passage of new overall tax limits or the reduction in the maximum rates of existing overall limits between 1930 and 1933 not only curtailed property taxes in certain states, but also forced some states to increase aid to local government and school districts. Most of the replacement revenues have been obtained from state sales taxes.¹⁸ Even where the maximum rates have been high, they have tended to keep potential property taxes down and to foster state assistance. The reason for this is that an overall limit generally establishes a maximum rate of taxation upon each individual parcel of property. The aggregate taxes of all units of government taxing the property cannot exceed this rate. Such limits may be constitutional or statutory. Rhode Island has had a statutory overall limit since 1878 (2.5 percent now). Nevada has had a constitutional overall limit (5 percent) since 1895. Illinois adopted its statutory limit in 1901, imposing a 5 percent limit, but so many exceptions had been allowed that by 1933 the law had become ineffective. Oklahoma has had a constitutional limit since 1907, but reduced it to 1.5 percent in 1933. Ohio's constitutional limit dates back to 1911, but it was reduced to 1 percent in 1933. Indiana and Washington adopted statutory overall limits in 1932 of 1 to 1.5 percent and 4 percent respectively. Constitutional limits were also adopted in 1932 in Michigan (1.5 percent) and West Virginia (0.5 to 2 percent). The next year a constitutional limit was adopted in New Mexico (2 percent). Since 1934 overall tax limitation has not been extended to other states.¹⁹

There were relatively few states in 1936 without property tax limits applying to certain units of government—only New Jersey, Massachusetts, Connecticut, Vermont, and New Hampshire.²⁰ Delaware and Maryland have no general limits. New Jersey had a limit applying to cities until 1914. About half these limits are written into state consti-

¹⁸ A. M. Hillhouse and R. B. Welch, *Tax Limits Appraised* (1937), pp. 20 ff.

¹⁹ *Ibid.*, p. 1 ff.

²⁰ C. L. Leet and R. M. Paige, *Property Tax Limitation Laws* (1936), p. 38 ff.

tutions. Most of them came into existence during the nineteenth century. They generally apply to school taxes within the unit covered. Although they probably do not seriously restrict the total property tax burden, they do tend to force units affected to transfer functions of government or seek state assistance, especially during a period of declining assessed valuations.

At least forty states have had tax limits applying specifically to county or local school taxes, but recently Arkansas and Nebraska suspended their tax limits. Most of the limits are expressed in terms of maximum tax rates, but Iowa places limits on the amount to be raised per pupil and Minnesota on the amount to be raised per capita. The highest maximum rates are found in counties with a central tendency of 5 mills and a range from 0.5 mills in North Dakota to 25 mills in Virginia. The central tendency in the limits for local school tax rates is between 10 and 15 mills with a range from 4.5 mills in New Mexico to 45 mills in North Dakota. Many of these states have varying maximum rates for various types of school districts, e.g., from 30 to 45 mills in North Dakota. Some of the limits can be exceeded by a vote of the people or the maxima are higher where there is a favorable vote on the levy.²¹ These and other types of tax limits have serious implications for public school control as shown in Chapter IV.

DEBT LIMITS

Local borrowing powers generally are subject to a variety of restrictions as to purpose, methods, amount, term, interest rate, retirement, and form in practically every state. Usually debts cannot exceed a specified percentage of assessed valuation, ranging from 2.5 to 20 percent. Almost all states have debt limits for schools, the most common limits being from 5 to 10 percent of assessed valuation.²² However, where there are no overall limits, special districts often are created to exceed the limit. Often overlapping units have separate limits, with school districts often having the highest. South Carolina and Connec-

²¹ National Education Association, Research Division, *Tax Limitation Laws* (1948), and Council of State Governments, *The Forty-Eight State School Systems*, p. 237.

²² *Ibid.*, and F. L. Bird, "Municipal Credit in the United States," in *Taxation and Public Policy* (1936), pp. 122 ff.

ticut have overall debt limits. In other states, the laws are complicated and have been subject to varying court interpretations.²³ Except where they generally are evaded, such limits have tended to restrain some potential borrowing, especially from 1930 to 1940, when assessments were down, thereby reducing the potential burden upon property taxes.

NATURE OF GENERAL PROPERTY TAX

If the general property tax has a theoretical basis, the theory is that ownership of property is an index of ability to pay, that all property derives certain benefits from government which justify taxation, and that a uniform tax rate applied to all property according to its value is an equitable, democratic form of taxation, satisfying both the ability concept and the benefit theory.

ORIGIN

Before appraising the soundness of these concepts under modern conditions, two facts must be cited. (1) The general property tax in America evolved when the country was largely agricultural. In early colonial laws, ownership of property was considered one test of a man's ability to pay taxes.²⁴ Selected items of property such as one-story houses, two-story houses, cows, horses, and sheep were taxed according to schedules fixed by law.²⁵ With the spread of equalitarian ideals after the Revolution, constitutional provisions and statutes requiring uniformity in assessments and rates for property taxation were adopted.²⁶ However, underlying this whole concept of property tax was a rural economy. Assessment and collection dates were established to suit farm conditions. (2) The tax was developed for an economy that was only partially a money economy. Acquiring property, not money income, was what determined a man's economic success. A farmer's money income was rather small relative to what he produced or obtained by barter for his own consumption. Teachers, professional men, artisans, and laborers often received a large part of their income

²³ See *Municipal Yearbook*, 1936.

²⁴ E. R. Seligman, *Essays on Taxation* (1925), p. 58.

²⁵ Jensen, *op. cit.*, pp. 27 ff.

²⁶ *Ibid.*, p. 35 ff.

in goods and services, not money. Naturally, the tax system adopted under such conditions would place great emphasis upon property ownership as an index of ability to pay. A farmer with a two-story house and one hundred cows was wealthier and better able to pay taxes than one with a one-story house and ten cows under such conditions.

PROPERTY AS AN INDEX OF ABILITY

With the development of advanced money economy the use of property as an index of ability to pay taxes became less tenable. The concept of ability has changed from property ownership to annual net money income. Two persons might receive the same annual money income. One consumes most of his income immediately—in food, drink, and pleasure. The other acquires real or personal property with most of his income. The first type escapes most property taxation; the second assumes most of it. Even if there were a sales tax equal to the property tax, the two persons with the same income might have very different tax burdens, because the property tax recurs every year. Imposition of an income tax in addition to the property tax would only aggravate the difference in burden.

A money economy, moreover, made it possible for the consumer to choose among thousands of kinds of property. Farm personal property in many new forms—machinery, tools, household goods, vehicles—advanced upon farm real property in value, but not all of it contributed equally according to its value to the farmer's ability to produce an annual net income after expenses. Real property in the form of factories, utilities, transport, wholesale and retail establishments, storage facilities, offices, urban and suburban residences, and many other types surpassed farm real estate in valuation, but not all of it produced the same money income per unit of valuation. Personal property in thousands of varieties with varying attributes began to equal or exceed real property in valuation. Indeed, it became physically impossible to assess all of it for tax purposes.

Another characteristic of a money economy contributed to the breakdown of the property tax. Intangible property rights—stocks, bonds, notes, mortgages, credits, or other contracts—became common. The person using real or personal property might have little or no

ownership rights in the property. The attempt to tax both the holder of the property and the holder of legal rights in the property led to double taxation of the same property. It also increased property tax evasion, since such rights are difficult to discover. Owners of intangible rights might live in a different taxing district thereby creating the problem of situs. Where attempts have been made to tax property according to the equities of different parties in the property, there has been a tendency to shift the whole burden to the debtor.²⁷

The economic effects of the general property tax became very different under urban, industrial conditions from what they were under an agricultural economy, even as far as farms are concerned. As pointed out by Morrison, the effects are as varied as the forms of property itself.²⁸ Forests require a generation to mature. During this time little or no income is received. A recurring general property tax forces premature and wasteful use of this resource. Farmers usually are forced to have a large investment in property in order to produce. The general property tax tends to take a larger share of the income of such enterprises. Property taxes upon certain business enterprises requiring little property often can be passed on to the consumer. It frequently takes years to get a business established. Taxation upon the value of property instead of earnings during this period may bring about failure. Owners of property held for renting can, during a seller's market, pass on most or all of the property tax to tenants. Owners holding property for their own use must absorb the tax. Investors in property sometimes can capitalize the property tax by purchasing the property for a lower figure; or they can increase the capital value of property when taxes are reduced; or increase their rate of return upon the original investment or they may lose money when the tax is increased; or their rate of return might be reduced through increased property taxes. The whole problem of capitalization, shifting, and incidence of the property tax is complicated under modern conditions.²⁹

THE BENEFIT THEORY

The general property tax has been defended as a benefit tax. It is claimed that many services of government such as schools, streets, and

²⁷ Groves, *op. cit.*, pp. 64-65.

²⁸ *School Revenue* (1930), p. 160.

²⁹ See Jensen, *op. cit.*, pp. 53 ff.

utilities enhance the value of property and it is right for government to tax this unearned increment. It also is said that there are no natural rights to land and that all titles are legal ones derived from and protected by the state and that it is right for the state to exact land rent in the form of taxes. It is also maintained that many of the services of government, such as fire protection, utilities, garbage collection, sewers, and police protection, are direct benefits to property which justify property taxes.

It is only partly true that certain government services benefit property. The fact is that they really benefit some person—a tenant, a speculator, an owner, a purchaser, a seller, a mortgagor, an investor, a creditor, or someone else. All government services provide benefits for someone, but the benefits are diffuse. They may be felt for generations. It is practically impossible to ascertain the specific benefits one person derives from any one governmental service. How then can the benefits be determined for property? Are the benefits the same for a thousand-dollar automobile, house, diamond ring, oil painting, or calculating machine? Does a \$5000 house of wood construction receive as much, or more, benefit from fire protection as a \$5000 house of fireproof materials? Even when limited to the service and protective services of government the benefit theory no more supports taxing property than it supports taxing skill, knowledge, and other attributes. They all benefit from government.

If the benefit theory ever had much validity when applied to property taxation, the changing functions of government have destroyed it. Protection represents a smaller share of governmental spending than it did. The great expansion has taken place in highway and welfare services. These, especially the latter, are direct benefits for individual citizens, directly and indirectly.³⁰

ADMINISTRATIVE LIMITATIONS

There are three main steps in property tax administration: (1) assessment, (2) levy, and (3) collection. Of these the most important is assessment; and it is the source of most of the practical shortcomings of the general property tax, followed by collection methods. Levy is simply the determination of the amount to be raised by the tax for a

³⁰ See W. J. Shultz, *American Public Finance* (1938), pp. 372-373.

given year, but overlapping units of government levying property taxes create administrative difficulties. Levy determines the rate for each unit of government.

ASSESSMENT

The assessment of property under modern conditions is difficult for experts because of the wide variety of property, the possible equities in the same property, the varying attributes of different kinds of property, the place of different kinds of property in the economy, fluctuating prices, incomes, or costs, and the many values which any given property possesses at a given time. Statutes may specify cash value, market value, true valuation, fair value, actual value, or a percent of value. Property tax literature also refers to loan value, insurance value, book value, and social value. Courts in defining the meaning of statutes have arrived at value by considering original costs, replacement costs less depreciation, exchange value, price a willing buyer would pay a willing seller, value under normal market conditions, capitalized value based upon net income, and value to owner.³¹ Yet assessment is a function usually assigned to part-time elected officials or political appointees. Very seldom are assessment offices managed and staffed by professionals.

The lack of nonpolitical, skilled assessors accounts for one of the major weaknesses of the general property tax—its regressivity. The typical assessor is able to assign fairly reasonable values to low-valuation property, but he fails to recognize the true value of high-valuation property. Numerous studies have confirmed the tendency for assessors to assess low-valuation property at a higher percentage of value than high-valuation property.³² Thus the major burden of the tax is placed upon low-valuation property owners.

The important consideration in assessment is that all property of a certain class be assessed according to uniform standards and percentages of valuation. Yet within most taxing districts, indeed, in the same neighborhoods, will be found wide variations in the percentages of full valuation placed upon like properties.³³ Sometimes this is a matter

³¹ *Ibid.*, p. 326.

³² Groves, *op. cit.*, pp. 69 ff.

³³ See J. D. Silverherz, *Assessment of Real Property in the United States* (1936).

of political favor; sometimes it means subjective, unskilled original assessment. No matter what the cause, the result is an inequitable distribution of the property tax burden. Since it is a general practice, in rural areas especially, to copy assessment rolls with very few changes from year to year, these injustices are continued for a long time. Seligman lists lack of uniformity in assessment as the number-one weakness of the property tax.³⁴

Laws generally provide for some kind of court or administrative review of original assessments. However, the cost of court actions usually preclude small owners from making appeals. Where large owners secure reductions after review, their relief is absorbed by higher tax rates for those who cannot afford redress. Generally administrative review is made by the same persons who make the original assessment or by a politically controlled board; so little help can be secured from this source. The result often is servitude to a political machine in return for a reduction in assessment.

The lack of uniformity in assessments contributes to the economic weaknesses of the property tax. Wide variations are found in the assessment practices of different taxing jurisdictions. Where taxes are levied by higher units such as the county or the state, this leads to an inequitable distribution of the burden unless such assessments are corrected or equalized before levying the tax. Separate assessment by different units of government as exists in some states is but another wasteful duplication of function and only adds to the confusion (fortunately very few school districts are responsible for assessment). Many prices are determined in national or area markets. Enterprises located in underassessed colonies gain a tax advantage over enterprises in areas with higher assessments where tax rate differentials do not wipe out the advantage. To minimize the economic effects of the tax the property tax should be as stable and as uniform geographically as possible.³⁵

Small tax districts created to administer the property tax under rural conditions have resulted in very unequal assessed valuations to support local government through the tax. Districts fortunate enough to contain resources which have taken value with industrialization—e.g.,

³⁴ Seligman, *op. cit.*, p. 19 ff.

³⁵ See Jensen, *op. cit.*, pp. 84 ff.

coal, ore, oil—found themselves extremely favored with valuation relative to population. The same is true of districts which accidentally came into possession of facilities for transport, manufacturing, or trade, especially where the facilities derived their income from a wide area. Others found themselves favored for high-valuation residential areas. On the other hand, districts which were suitable only for farming or low-cost residences had to struggle to support government with high rates or assessments at a high percentage of valuation or both.³⁶

Small districts with considerable valuation and no incentive to assess at a high percentage of valuation, and enjoying low tax rates, became colonies for high-valuation property enjoying a relatively low property tax burden. Most metropolitan areas or states have several such colonies.

The growing importance and infinite variety of personal property in an industrial economy made it practically impossible even for a large assessment organization to find and assess personal property. Intangibles are difficult to locate. Most tangible personal property can be transported easily from jurisdiction to jurisdiction. Much personal property escapes taxation entirely; assessors are reluctant to do the detective work necessary to locate it. Consequently, personal property represents a relatively small percentage of total valuation under the general property tax; yet its value may now exceed that of realty. Indeed, the long term trend is for assessed valuation of personal property to decline relative to real estate while the trend in our economy is for personal property to increase in amount relative to realty.³⁷ The general property tax tends to become a real property tax.

COLLECTION

The methods of collection usually employed contribute to the weaknesses of the property tax. Very often no bills are sent out. Payment must in many cases be made in one sum upon a certain date which may or may not be convenient for the taxpayer. The fees of collectors frequently are higher for delinquent taxes, which does not foster efforts to collect the tax when due. The cost of collection in any case is rela-

³⁶ *Ibid.*, p. 80.

³⁷ Tax Institute, *Property Taxes* (1940), pp. 117–118, and Seligman, *op. cit.*, pp. 23 ff.

tively high. In some cases no attempt is made to collect delinquent taxes upon certain properties for years and tax sales are infrequent or nonexistent. Legislatures have granted moratoriums to delinquent taxpayers. Sometimes legal procedures for acquiring titles to property are too costly to justify tax sales. The titles obtained from tax sales often are too insecure to encourage purchases. Failure to collect property taxes upon some property ultimately increases the burden upon all other property upon which the tax is levied.³⁸

The weaknesses in collection methods contributed to the breakdown of the property tax during the severe depression. The median percent of the property tax levy uncollected at the end of the year in 150 cities increased from about 10 percent in 1930 to over 26 percent in 1933, remaining above 10 percent until 1939.³⁹ Percentages of year-end delinquency of over 40 were not uncommon from 1930 to 1940; in one city nearly 82 percent of one year's levy was uncollected at the end of the year.⁴⁰ Some cities have consistently high percentages of delinquency year after year. In some cities the accumulated uncollected taxes amounted to more than the total levy for the year 1940.⁴¹

LEVY

The existence of many overlapping taxing authorities—state, county, town, village, school and special districts—sometimes leads to a very heavy total property tax levy upon individual properties. New York State has no state property tax nor tax upon personal property, yet it is possible to find properties in rural or suburban areas which have higher total tax rates on equalized valuation than the highest city rates. The pyramiding of county, town, village, school and special district rates often results in total rates of over \$50 a thousand upon equalized valuation.

PROPERTY TAXATION IN A REVENUE SYSTEM

The property tax in some form probably will continue as part of the public revenue system in the United States for many reasons: (1)

³⁸ See Tax Institute, *Property Taxes*, p. 256.

³⁹ F. L. Bird, *Trend of Tax Delinquency, 1939-40* (1941), p. 9.

⁴⁰ *Ibid.*, pp. 22 ff.

⁴¹ *Ibid.*, pp. 37-38.

It is a good revenue producer; (2) It has a century or more of tradition behind it; vested interests have been created; (3) It is well-established, being written into constitutions and statutes; (4) It is a relatively stable source of revenue except in a severe economic collapse; (5) It can be administered locally; (6) Abandoning it would be a tremendous gift to owners who could capitalize the tax saving; (7) It reaches a type of nonmonetary income—the use and enjoyment of a home; (8) To some the benefit theory justifies the tax.

ITS PLACE

The general property tax generally is condemned by tax students;⁴² but that does not mean that some kind of a modified property tax does not have a place in a sound tax system. The National Tax Association, "Model System of State and Local Taxation" (1933), recommended that a tax upon tangible property levied exclusively at situs should be part of a tax system.⁴³ The Twentieth Century Committee on Taxation (1937) recommended that in most local jurisdictions no substantial reduction be made in the real estate tax.⁴⁴ The Treasury Committee on Intergovernmental Fiscal Relations (1943) recommended a classified property tax. Studies in individual states generally recommend changes in the property tax or its administration, not repeal.⁴⁵

PROPERTY TAX REFORM

Tax literature and survey reports are replete with recommended changes in property taxation. These relate to both the nature of the tax and its administration. Some generally are accepted by tax specialists; others are debated.

CLASSIFIED PROPERTY TAXATION

The basic change recommended in the tax itself is the abolition of the general property tax—abandonment of the uniformity clauses in constitutions and statutes. There is fairly general agreement that intangibles should be exempt from property taxation and the income

⁴² See Jensen, *op. cit.*, p. 478.

⁴³ *Report of Committee* (1933).

⁴⁴ *Facing the Tax Problem* (1937), p. 432.

⁴⁵ Tax Institute, *Tax Policy*, Aug., 1945, p. 8.

from such rights taxed under an income tax, or they should be taxed at nominal rates. Taxing intangibles at the rates applied to realty or tangible personal property often reduces the interest rate to a point which makes investment unattractive. Elimination of the tax upon intangibles removes the difficult problem of situs as applied to such property rights, the problem of double taxation, and the problem of evasion. Low rate taxes on intangibles often produce more revenue than the high-rate general property tax,⁴⁶ but revenue is not the only consideration. An important issue is justice, taking into account the economic effects of the tax when applied at high rates to both tangible and intangible property. Investment return is a major consideration in the taxation of intangibles.

The classification of tangible property for taxing purposes has as its object the grouping of property that is economically similar and taxing it according to its economic characteristics. It applies to both personal and real property. It can be accomplished by varying the rate for different classes of property, assessing at varying percentages of value, different methods of assessment, varying exemptions, or fixed schedules of valuation to be applied to certain classes of property. Uniformity should prevail within each economic classification.

Theoretically, classification appears to be the soundest method of correcting some of the basic weaknesses of the tangible property tax. Unfortunately, in legislation classification tends to be determined by political rather than economic considerations.⁴⁷ Moreover, economic classification is very complicated, being a variable problem both in space and in time. The National Tax Association Committee on a Model Tax Plan did not favor a classified tangible property tax, but largely for revenue reasons.⁴⁸ However, the committee did recognize that some type of classification might be desirable in the taxation of such property as ships, vessels, staple products in transit, public service enterprises, mines, forests, banks, and tangible personalty.⁴⁹

Although classification may be on the wane,⁵⁰ it may be desirable to

⁴⁶ Tax Institute, *Property Taxes*, p. 88.

⁴⁷ *Ibid.*, p. 108.

⁴⁸ *Report of the Committee*, p. 33.

⁴⁹ *Ibid.*, pp. 31 ff.

⁵⁰ Tax Institute, *op. cit.*, p. 114.

extend some kind of economically sound classification. One fundamental distinction is between land and improvements. The value of these may be affected by different variables, justifying different assessment or rates.⁵¹ The value of the land may increase while the value of the improvements is depreciating. The tax on land under certain conditions cannot easily be shifted, while the tax upon improvements under other conditions may be shifted at least in part. Taxing buildings at the same rates as land may retard building or the improvement of existing buildings.⁵² It is possible that the policy of differentiated tax rates for land and improvements or exemption for improvements in urban areas will gain support as urban blight spreads and suburban areas continue to grow.⁵³ At one time fear of unwise expansion of building in cities was used as an argument against this differentiation.⁵⁴

There are further classifications possible in land taxation. It has already been shown that forest lands require special treatment. Minnesota, Montana, North Dakota and West Virginia have classified land taxes. Mineral resources and farms have been given different treatment in some states. Whether or not these classifications can be justified economically will require considerable research.

Classification of improvements into manufacturing establishments, public utilities, urban residential, and farm are very difficult to appraise with existing knowledge. Such classifications require more convincing economic data than we now possess.

Tangible personal property, at least household goods and personal effects, might well be exempted from all property taxation.⁵⁵ With all its limitations a selective sales tax would seem to be sounder than an annual tax upon personal property. Where the personal property tax is retained, a classification based upon producer's goods and consumer's goods may prove to be sound.⁵⁶ Where the tax is repealed or liberal exemptions allowed a replacement tax is the fundamental consideration. Repeal without an adequate replacement tax not only reduces

⁵¹ See S. E. Leland, *The Classified Property Tax in the United States* (1928).

⁵² See Groves, *op. cit.*, p. 58.

⁵³ Tax Institute, *op. cit.*, p. 140 ff.

⁵⁴ See Shultz, *op. cit.*, p. 368.

⁵⁵ Tax Institute, *op. cit.*, p. 133.

⁵⁶ *Ibid.*, p. 109.

revenues in the state concerned, but puts other states at a competitive disadvantage. The classified personalty taxes of Kentucky, Minnesota, Montana, Ohio, Virginia, and West Virginia have been praised or condemned according to the concepts of the critics.

Reviewing existing classified property taxes, Shultz concludes that it has not generally produced increased revenues, that the tax generally has been used as an instrument of fiscal reform, and that it has introduced no new detrimental effects into the property tax system.⁵⁷

Units of government. Many fiscal authorities have recommended that states withdraw from property taxation, leaving the property tax for local government.⁵⁸ It has been shown that there is a pronounced trend in this direction.

Another proposal generally made is the creation of larger local units for property tax administration, eliminating the complex pattern of overlapping units which now exists. A unit must be large enough to employ economically competent assessors upon a full-time basis and to provide them with the assistance and tools required for scientific assessment. The larger the unit, up to certain limits, the less will be the overhead cost involved in collection. Probably no unit smaller than a county is capable of performing this function efficiently and economically. In 1947 Iowa and Nebraska abolished local assessment districts, making assessment a county function.

ASSESSMENT

The problem of improving assessment practices is a fourfold one. (1) The valuation of property is a complex economic problem. Representing a dynamic rather than a static condition, it involves the balancing of a number of present and future variables. What criteria are to determine value? Are these so objective that different assessors working independently will arrive at the same values for given properties? (2) Being a complex economic problem, it requires assessing officials who have a broad background in economics and business, who are skilled and experienced in using available assessment techniques, and who have sufficient breadth of experience and vision to be able to

⁵⁷ W. J. Shultz, *op. cit.*, p. 365.

⁵⁸ See *Facing the Tax Problem* (1937), p. 433.

place a just value on high-valuation property. Are such men available for appointive positions? Are they given tenure? Do elected assessors meet these qualifications? How effective is in-service preparation? Is the organization of the assessment staff such as to promote efficiency? (3) Even where assessing officials are carefully selected, appointed, and given tenure of office, other forces in the community may bring about inequitable assessments. How can an entrenched political machine be prevented from granting assessment favors to its powerful supporters? (4) Even if assessments are made by experts using the best scientific techniques, subjective factors cannot be eliminated. Inexpensive, expert, disinterested review of local assessments is needed. How can assessment review be made inexpensive? How can men with the highest qualifications be obtained for assessment review? How can the utmost impartiality in review be secured?

According to the New York State Commission for the Revision of the Tax Laws:

A clear-cut body of opinion, amply buttressed by experience, has grown up in the United States concerning the essentials of an adequate system of real estate valuation. Summed up briefly, the elements needed within a given tax district are: (1) an adequate staff of qualified assessors working full time during good behavior under competent direction; (2) maps and records sufficient to describe fully every parcel of property to be valued; (3) a method of valuation based on the independent variables with a bearing on value, which shall be sufficiently detailed and flexible to facilitate comparisons among individual properties in the same class and among the different classes of property subject to taxation at the same rate; (4) access to objective and reliable sources of information relative to the values of as many individual properties and classes of property as possible; (5) full publicity as to basic data, methods of analysis and assessment, and final valuations, both by conference with the public and by publication; (6) prompt, impartial and inexpensive administrative review in cases where a taxpayer feels himself aggrieved; and (7) adequate provision for judicial review in those cases where administrative review does not succeed in settling the questions at issue. With reference to this seventh essential, it goes without saying that the courts are probably not so well qualified for arriving at the truth with regard to values as are the assessors themselves or the reviewing officials. The fact remains that it is impossible to

arrive at present values without taking the future into account. When the opinions of buyers, of sellers, and of commercial appraisers regarding the future of a given property vary widely from one another, it may be impossible to establish any generally acceptable value for that property by administrative processes. Since some definite value for purposes of taxation must nevertheless be assigned, the courts must be appealed to for the purpose of assigning that value, whether it prove to be right or wrong in the light of future events.⁵⁹

Many tax students would limit judicial review to legal questions only.

The state has important functions to perform in the original assessment of property. Although most states have agencies responsible for supervising assessment work, most of them do not have the resources or the authority to perform the functions which a state should perform. Preparation of manuals for use by local assessors is a common practice which should be continued and extended. However, more important is providing experts to assist local assessors, preferably upon a regional basis as has been done in Wisconsin. Such assistance is needed in the appraisal of corporate properties, many types of businesses, and natural resources. Such experts not only should assist in assessment, but they should provide technical training for local assessors. Many states have assumed direct responsibility for the assessment of railroad and other public service properties, mineral resources, and other types of property involving complex economic considerations. This policy should be extended. It might even be desirable for smaller states to assume complete responsibility for assessment, at least outside of urban regions. At the very least, states should require actual reappraisal of property at frequent intervals—assessments should be constantly subject to review because of the many variables involved.

Until reforms in assessment machinery and methods bring about reasonably uniform and equitable assessments, until state property taxes are repealed, and until overlapping local taxing jurisdictions are abolished, equalization of assessments will continue to be a major function of state property tax administration. Where property tax val-

⁵⁹ *Report of the New York State Commission for the Revision of the Tax Laws Submitted February 15, 1932* (Memorandum No. 3), pp. 7-8.

uations are used as a reimbursement base for state or federal assistance to local units of government, this function is especially important. Machinery for state equalization has been established in many states since 1870. Too often this function is performed by an inadequate staff lacking basic data for correcting original assessments. Without adequate state supervision there is no assurance that the assessment rolls used for equalization purposes are complete and accurate. Wisconsin and New York have tried to collect data upon sales to aid in computation, but New York State has not had the staff to supplement sales data where it is inadequate for equalization. Wisconsin, with regional supervisors, was in a better position to appraise local assessment practices, but the number of supervisors has been reduced to a point which handicaps the work.⁶⁰

The failure of local assessment practices to adjust the property tax base to the current higher price level has caused a number of states to take remedial steps. Arizona, Colorado, Indiana, Kentucky, Utah, and Virginia have provided for state-wide reassessments. The Arizona law applies to urban real estate. The Colorado program applying to all property places emphasis upon rural land productivity. Utah's reassessment also will be done by county assessors. Virginia is aiding county assessors in the job. Nevada had provided a staff of valuation consultants working under the State Tax Commission to review assessments and assist county assessors in original assessments. Pennsylvania has established a state tax equalization board. A study of assessments in New York State showed that property valuations were far out of line with other economic indices.⁶¹ A commission is now conducting studies of assessments in individual counties and changing equalization ratios.

EXEMPTIONS

The whole problem of property tax exemptions should be appraised periodically not only in terms of the total value of exempt property but also in terms of the contribution being made by other taxpayers

⁶⁰ See Shultz, *op. cit.*, pp. 348 ff., and Groves, *op. cit.*, p. 88.

⁶¹ M. Slade Kendrick and W. H. Strevell, *The Property Tax as a Fiscal Instrument in New York State* (1947), pp. 8 ff.

for such purposes. It is really a public expenditure.⁶² Further exemptions should be curtailed; some exemptions should be repealed; in-lieu taxes should be provided in many cases.

One of the greatest problems of exemptions is the concentration of large amounts of tax-exempt property in certain cities or other units of government. College towns, seats of government, rural districts with large areas of federal or state lands or large federal or state institutions are among the hardest hit. New York State permits certain school districts having large amounts of state lands to tax these lands for school purposes. The federal government has permitted certain federal government properties to be taxed at nondiscriminating rates or has provided revenues in lieu of taxes on certain properties. Most states now permit such taxation where the federal government allows it; other states are repealing their prohibitions against the taxation of federal properties where the federal government permits such taxation. However, there is no uniform policy.⁶³ State and federal governments should adopt uniform provisions for either taxing certain government-owned properties in local units of government or should provide funds in lieu of property taxes, applying alike to all units involved.

In the case of exempt property held by individuals and private institutions, the value of the services rendered should be weighed against the cost of tax exemption. Much tax exemption is given to organizations which perform a very minor social service. Some are no more entitled to a tax exemption than a country club or a tavern. There are many possible remedies: (1) making reasonable service charges upon all property now tax exempt; (2) where the service performed is not largely local in nature, providing in-lieu assistance to local government from a higher unit of government; (3) apportioning the tax in terms of what an institution spends for social service relative to what it spends for purposes which would not justify any tax exemption. A growing number of universities are assuming a share of the burden of supporting local government.

The weight of expert opinion favors the repeal of homestead ex-

⁶² *Facing the Tax Problem* (1937), p. 432.

⁶³ Groves, *op. cit.*, p. 442.

emptions and other exemptions granted for political reasons. If states want to aid veterans or other groups they should appropriate funds for this purpose and not transfer the burden to local units of government through tax exemptions.

COLLECTION PROCEDURES

In order to improve the collection of the property tax and to reduce delinquency the following proposals for positive action have been made:

1. Mail tax bills to every taxpayer.
2. Permit installment payments in as small amounts as possible.
3. Allow discounts for early payment in full.
4. Integrate collection dates with collection dates for other types of taxes; so that large property tax and other tax payments do not come due at the same time.
5. Allow payment by mail.
6. Abolish fees for tax collectors; employ full-time collectors who collect all property taxes in an area.

Although some states have increased the number of installments, a great deal of progress is possible in all states in modernizing collection methods. The Federal Housing Administration has set the pattern by providing for monthly payment of the taxes on property.

Where taxes are not paid even under a liberalized collection procedure, a different plan of action must be taken. Collection dates, discounts, and penalties should be fully advertised. Delinquent taxpayers should be given frequent notice and it should be administratively possible to work out plans of payment suited to the circumstances of the taxpayer. Interest rates upon delinquent taxes should be high enough to discourage lapse in payments. Where the penalty involves payment of interest or extra fees, these should go to the unit of government and not the collector. Penalties should be enforced. Tax sales should be certain and prompt.

The enforcement of penalties requires certain changes in law. It should be possible for a unit of government to acquire a clear legal title to tax-delinquent properties within a reasonable time. The pro-

cedures for acquiring such title should be simple and inexpensive. New York State (1939) adopted legislation to simplify and reduce the costs of foreclosing tax liens. The law provides for action *in rem* against any property upon which there has been a tax lien for four or more years. No title searches are required; no summons or complaint has to be served upon the owners; there are no fees for referees or filing. Any number of parcels of property may be included in one list. Filing the list in the office of the County Clerk constitutes separate notice of pending action for each of the owners. A short notice of complaint and pending action applying to the whole list, not each separate parcel, must be published. Copy of such notice is mailed to the last known owner of each parcel listed. This law reduced the cost of purchasing tax liens from about \$100 for each parcel of property to about \$4.00. Washington, Nebraska, and Minnesota have similar laws.⁶⁴

Other proposals for expediting tax sales include reducing the period for redemptions, basing tax sales upon the lowest rate of interest of bid, and the adoption of receivership statutes similar to those in New Jersey, Illinois, and Ohio. The tax sale might even be abolished entirely.⁶⁵

POTENTIALITIES FOR LOCAL INITIATIVE

The gradual reduction of the property tax base through exemptions, classification, and in-lieu taxes and other reforms has serious implications for the doctrine of local initiative upon which the structure of local school government in most states is conceived. The general property tax has been the institution which has enabled local initiative to operate in school affairs. Without the power to tax and an adequate tax base to tax, local initiative has little meaning. Certain reforms, such as states withdrawing from property taxation and increasing shared taxes and financial assistance to local government, when not accompanied by undesirable controls foster local initiative. Improvement in assessments would greatly increase the potentialities of the tax for school support. Consolidation of local taxing units, on the other hand, might destroy school-district local initiative if the reforms in-

⁶⁴ See Tax Institute, *op. cit.*, pp. 262 ff.

⁶⁵ Groves, *op. cit.*, pp. 110 ff.

volve fiscal dependence or elimination of the taxing power of school districts. Unless property tax exemptions, classification, and other reforms which reduce the yield of the property tax are accompanied by new local taxing powers or increases in aid from states commensurate with the potential losses, the taxing power upon which local initiative is based is reduced.

CONSEQUENCES OF INERTIA

On the other hand, failure to reform the property tax and supplement it by revenues from other tax sources will prove detrimental to schools. Schools depending largely upon property taxation cannot tap the major source of taxpaying ability—individual skill and knowledge which the schools helped create. Inequalities in assessed valuations behind each child will mean very meager educational opportunities for thousands of children. Inequities in the administration of the tax will foster attitudes hostile toward the support of schools. In periods of rising prices schools anchored to the stability of the property tax will not be able to adjust, with the result that teaching staffs will deteriorate and services will be curtailed.

Unless some new sources of local tax revenues which have been proposed or have been adopted to supplement the property tax are made available to school authorities, school programs may fail to keep pace with progress in local government through local initiative. The only alternative to such a policy is constantly increasing federal and state assistance for schools, which will release whatever property-tax leeway there remains for the exercise of local initiative in school affairs.

LIMITATIONS OF THE LOCAL PROPERTY TAX

Until, and even after, every possible reform has been made, the local property tax will be subject to certain serious limitations as a source of public school revenues: inequalities in taxable property relative to school population, competition among local units, and the total local tax burden.

Even after local government has been reorganized, differences in fiscal capacity to pay property taxes will remain. The ability of local

units of government to support schools by local property taxation is not determined by total valuation of property but by the amount of taxable property for each person to be educated. Chapter III contains data on the wide variations among local units in this respect. Furthermore, there is evidence that such inequalities have been increasing even among counties during the past century.⁶⁶ Differences in the economic bases of local government cannot be wiped out. There always will be predominantly agricultural areas, commercial and trading centers, and industrial areas. The property tax applied to all three types of economies will always mean inequalities in fiscal ability to support local government.

There has always been a tendency for high-valuation industrial and residential properties to colonize in high-valuation local units of government with low tax rates. The automobile and the use of electricity for industrial power have increased intercommunity competition in property taxation. City workers avoid high municipal property taxes by migration to suburban areas. As suburban tax rates rise to provide essential services for the larger population, new developments move farther from the city or metropolitan center. The tendency for industrial and business properties to locate in undeveloped sections within or near metropolitan areas is growing. Homeowners, industry, and business avoid low-valuation areas with high tax rates.

Reorganization of local government has never been able to keep up with industrial and population shifts in the past. Little progress has been made in substituting metropolitan government for the city, town, village, special district and county governments that exist in such areas. It is probable that reorganization will continue to lag behind current developments and community tax competition will continue after any reorganization takes place.⁶⁷

TOTAL PROPERTY TAXES

The relationship of the total property tax burden to school property taxes has been discussed. The fiscal independence of school districts to

⁶⁶ F. W. Cyr, A. J. Burke, and P. R. Mort, *Paying for Our Public Schools* (1938), pp. 27 ff. and ch. IV.

⁶⁷ See Tax Institute, *Tax Relations Among Governmental Units* (1938), ch. XIV.

exercise home rule has been restricted by the total property tax burden in the past. If school districts retain their fiscal independence after reorganization, they will be even more seriously restricted, because of the greater strength of metropolitan, regional, or county units of government. If they lose their fiscal independence, it will be difficult for schools to get sufficient recognition in local budgets, because of the total demands being made upon the local property tax. It is inevitable that public schools must rely less upon local property tax support and more upon state and federal tax revenues in the future if they are to maintain and improve the quality of their services and if they are to retain any degree of home rule. An alternative is for counties, metropolitan districts, and larger municipalities to withdraw from property taxation as states have done, leaving the property tax base for school government. That is, the larger units would exploit the local non-property taxes, leaving the property tax for the smaller units of government.

SUMMARY

The property tax is a large and stable revenue producer which could not easily be replaced. Property taxes have become an insignificant source of state revenues. Although there has been no decrease in total local property taxes, the proportion of local revenues derived from this source continues to decline. Public schools still derive over 50 percent of their revenues from the property tax. However, state and county property taxes for schools are disappearing.

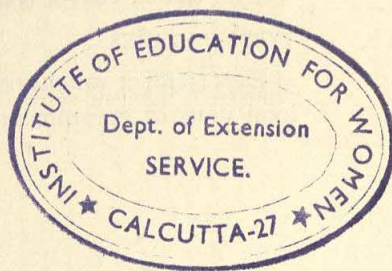
The declining importance of property taxes in local support for schools and other governmental functions is due in part to exemptions and restrictions adopted during the great depression. The failure of assessments to adjust to the high price level of the postwar years has relieved the burden of property taxes. Yet most of the exemptions or restrictions have not been removed or modified. Some states have taken steps to rehabilitate the tax and liberalize the restrictions, especially those relating to school support and school debt.

The property tax has an important place in a sound revenue program for schools. It can be administered in school districts regardless of size. It has a substantial yield. It provides stability. Public schools are

vitaly concerned in modifying the tax to fit modern economic conditions and bringing about urgently needed reforms in assessment and collections. Exemptions should be reappraised. Reforms should be evaluated (in part at least) as to their effects upon the initiative and independence of local school units.

READINGS

Allen and Brownlee (1), chs. XIX-XX; Buehler (11), chs. XVIII-XIX; Groves (75), chs. IV-V; Groves (76), ch. II; Jensen (87); Lutz (97), chs. XXII-XXIII; Morrison (107), chs. VII-VIII; Shultz (158), chs. XV-XVI; Tax Institute (173), chs. VII-XIX.



CHAPTER VII

Local Nonproperty Taxes for Schools

In the past, localities and school districts in many states have been authorized to levy certain minor nonproperty taxes, such as poll taxes or license fees. As states began to develop the more productive nonproperty taxes, it was assumed for a long time that such taxes would have to be administered and collected by the states. Localities were assisted through state tax sharing or grants-in-aid. Where state collected-locally shared taxes or grants-in-aid have been provided for local government in general and local school support has been provided from local general fund appropriations, local tax support for schools has been derived in part from shared taxes. On the other hand, fiscally independent or dependent school districts levying separate property taxes have benefited only to the extent that such shared taxes have increased their property-tax leeway. State collected-locally shared taxes and grants for general government are subject to serious limitations as revenue sources for both government and schools. A more recent development has been that of allowing localities to adopt taxes formerly reserved to the states, with collection by either the state or the locality. This policy has certain advantages, but is subject to some of the limitations of shared taxes plus certain other weaknesses.

OLDER LOCAL NONPROPERTY TAXES FOR SCHOOLS

TYPES OF TAXES

Most states at various times have authorized school districts or other local units of government to supplement property taxes with other

taxes for schools. One of the oldest and most common is the school poll or per-capita tax which probably originated as an alternative to boarding the teacher.¹ The poll tax still persists in about half the states for schools or highways.² Pennsylvania school districts, e.g., are permitted to levy a school poll tax. School poll taxes are still found in Indiana, Kentucky, Mississippi, North Dakota, and Wyoming. In some of the New England states the poll tax provides part of the town or city revenues from which school appropriations are made. Arkansas has returned poll taxes to the district in which they were collected for school support.

Some states from time to time have provided other local nonproperty taxes for school support. Illustrations include these: (1) Massachusetts has returned the dog tax after deducting the cost of collection to the towns and cities where it must be used for public schools or libraries; (2) Massachusetts and Maine make town or city school appropriations from motor vehicle excises; (3) Arkansas at one time had an optional local sales tax for schools, payment of which was optional with the taxpayer; (4) Alabama has authorized at least one county to levy a gasoline tax for school support.

Financial reports for Florida, New Hampshire, New Mexico, New York, and South Carolina show small percentages of local school taxes from nonproperty tax sources. The reports do not show what taxes supplied the revenues. However, Florida counties can collect license taxes; New Hampshire towns and cities can tax banks; New Mexico counties have merchants' licenses and taxes on oil or gas production; New York cities have taxed public utilities; and counties in South Carolina have a poll tax.³

REVENUE YIELD

None of these older local nonproperty tax sources for schools have been very important fiscally. Total poll taxes for school districts, cities, towns, and counties account for a fraction of 1 percent of total local tax revenues. In 1948 all but nine states reported local or county

¹ H. M. Groves, *Financing Government* (1945), p. 346.

² H. L. Lutz, *Public Finance* (1936), pp. 464-466.

³ *Tax Systems* (10th ed.), pp. 5 ff., and studies of school finance in individual states.

school revenues from nonproperty sources; but all except six received a very small part of school revenues from these. The highest percentages of total local revenues from nonproperty sources were about 10 percent in Kentucky, 12 percent in Louisiana, 10 percent in Nebraska, 12 percent in Oklahoma and South Dakota, and 15 percent in Virginia. The others average about 3 percent.⁴

APPROPRIATIONS FROM OTHER LOCAL UNITS

In this section, the discussion will deal with shared nonproperty taxes or unearmarked grants for local government from nonproperty tax sources that become a part of a local appropriation for schools from a local governmental unit other than an independent school district. Shared taxes and grants for school districts will be taken up in chapter XI.

It is oftentimes difficult to distinguish between state grants-in-aid and state collected-locally shared taxes. Sometimes the distinction is based upon whether or not the funds are earmarked for specific purposes. Shared taxes, however, are sometimes dedicated to particular functions and some grants-in-aid are not earmarked for specific functions. The distinction must be based upon how the amount to be given the locality is to be determined. Where the amount depends entirely upon the yield of a particular tax or groups of taxes, the policy is that of tax sharing. Usually a fixed percentage of the yield is shared. Need for funds, maintenance of minimum service levels, or ability to pay do not enter into tax sharing. It is not dependent upon appropriations as are grants-in-aid.

DEVELOPMENT

Prior to 1900 shared taxes were limited to corporation taxes with about a fourth of the states sharing this tax with the localities. The number of states sharing the tax increased to forty-four by 1930. After 1910 motor-vehicle taxes and after 1920 motor-fuel taxes were shared by about half the states. The number of states sharing taxes on com-

⁴ U. S. Census Bureau, *Finances of School Districts*, 1942, p. 3, and Council of State Governments, *The Forty-Eight State School Systems*, p. 225.

mon carriers, income, and other sources also increased after 1920. By 1930 forty-four states were sharing 142 taxes with localities.⁵

The states that have done the most in sharing state taxes with local units of government are Massachusetts, New York, and Wisconsin. However, New York substituted a system of grants-in-aid for general government in cities, counties, towns, and villages for shared taxes in 1946. Massachusetts and New York have tended to avoid earmarking shared taxes for specific purposes. Wisconsin has returned nearly all of the income tax to local governments without earmarking. Connecticut, Kentucky, Maine, New Hampshire, and Vermont have tended to use shared taxes for general local government.⁶

RELATIONSHIP TO SCHOOL SUPPORT

In fiscally dependent school systems where schools are supported by appropriations rather than separate school taxes, shared taxes or grants-in-aid not earmarked for specific purposes are a source of local public school revenues. With few exceptions public schools in the New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) are supported as a part of city or town government. School support in Maryland, Mississippi, New Mexico, North Carolina, Tennessee, and Virginia is closely related to county or municipal support. Indiana, Michigan, Montana, Nevada, Ohio, Oklahoma, and Washington have fiscally dependent school boards but they generally have separate school tax levies; their fiscal dependence generally arises from overall tax limits. Some school systems are fiscally dependent in Alabama, Florida, New Jersey, New York, Oregon, Texas, and Wisconsin. Atlanta, Louisville, and St. Paul are fiscally dependent city school systems, although most school systems in Georgia, Kentucky, and Minnesota are independent. In the remaining states all school systems are independent.⁷

Massachusetts serves as a good example of the use of state collected-

⁵ Ruth C. Hutchinson, *State Administered Locally Shared Taxes* (1931), p. 36.

⁶ R. J. Hinckley, *State Grants-in-Aid* (1935), p. 55.

⁷ N. B. Henry and J. G. Kervin, *Schools and City Government* (1938), p. 60; U. S. Census Bureau, *Finances of School Districts*, 1942, p. 1; and Council of State Governments, *The Forty-Eight State School Systems*, p. 238.

locally shared revenues as a local source of public school revenues. The public schools are supported by appropriations from town or city except in Boston. The state shares over 40 percent of its revenues with the towns or cities: (1) the income tax less the cost of collection, (2) five-sixths of the normal corporation tax, (3) part of the normal tax on public utilities, (4) one-third of the tax on meals, and (5) part of the gasoline tax, taxes on boxing matches, alcoholic beverages, and racing. The total amount of shared taxes reached about \$46 million in 1930 and 1942, but the levying of a state property tax reduced the net amount distributed. The net amount was nearly \$39 million in 1930 and nearly \$32 million in 1942. Part of the funds are earmarked for specific purposes: (1) about \$5 million for teacher salaries (really a grant-in-aid), (2) the proceeds of the tax on meals are earmarked for old age assistance—about \$200,000 in 1942, (3) the highway revenue, although designated for highway purposes, is in reality lumped with other shared taxes. So the net amount shared for general government in 1942 amounted to about \$25 million, derived mostly from the income, corporation, and gasoline taxes—shared largely in proportion to the state property tax paid by each local unit.⁸ This amount equals about 10 percent of total local town and city revenues, excluding grants-in-aid, from which local school appropriations were made.

In New York State shared taxes for general government and the recently adopted per-capita grants for local government that have replaced them become a source of school revenues in only a small number of school systems. Like Massachusetts, over 40 percent of the state revenues are devoted to local assistance; but aggregate shared taxes in 1945 amounted to only \$94 million or 16 percent of state tax collections and less than 10 percent of total local revenues.⁹ The public schools in New York City, Albany, Buffalo, Rochester, Syracuse, and Yonkers probably derived 10 percent or less of their local school appropriations from shared taxes. Most other city school systems and all of the school districts in counties have separate property

⁸ Massachusetts, *Report of Special Commission on Real Estate Taxation and Related Matters* (1945), pp. 269 ff.

⁹ *Report of New York State Tax Commission* (1945), pp. 77, 159–160.

tax rates for schools and do not receive appropriations from city, county, town, or village governments. Hence, shared taxes have not become part of their local revenues.

The status of shared taxes as a source of local school revenues in Wisconsin is very similar to New York in that few, if any, school systems are supported by local appropriations. In 1942 Wisconsin ranked highest in the percent of state revenues earmarked for local assistance. Milwaukee, however, has fiscal independence in taxation, although some of the smaller cities like Racine have a certain degree of dependence. Other school systems generally are independent.¹⁰

Among the city school systems in other states that probably derive part of their local revenues from shared taxes are Atlanta, Baltimore, Chattanooga, Providence, and St. Paul. Schools in Connecticut and Maine may get a small amount of local revenues from shared taxes. On the other hand, cities in Indiana, Michigan, and Ohio usually have separate school tax rates although they may be otherwise fiscally dependent.¹¹

LIMITATIONS OF STATE TAX SHARING

Many of the state collected-locally shared taxes are distributed according to the original amount collected in the local unit.¹² This practice leaves differences in fiscal abilities as they are and merely increases inequalities in services. Where the allocation is made upon property valuation or property tax collections the same results follow. Communities deriving their taxable resources from other communities receive the greatest state assistance. It is impossible to determine the true local source of taxes. The population, area, or highway mileage bases provide only a very crude correction for fiscal differences or service needs.¹³

Shared taxes are allocated uniformly to all units according to an arbitrary formula. The amount received by all units varies according to the tax yield rather than changes in fiscal requirements. Local prudential control over the funds is minimized by the fact that the

¹⁰ Henry and Kerwin, *op. cit.*, pp. 7-8.

¹¹ *Ibid.*, pp. 55-57.

¹² W. J. Shultz, *American Public Finance* (1938), p. 671.

¹³ Tax Institute, *Tax Relations Among Governmental Units* (1938), pp. 89-90.

state unit levies the taxes and the state formula determines the allocation received annually. Instability fosters careless budgeting of shared revenues.¹⁴ Accurate budgeting of shared taxes is impossible because the amount received varies from year to year depending upon the amount of collections. Localities lacking the flexibility of central governments in tax policy receive the smallest amounts of shared taxes when their property tax yields are dwindling. On the other hand, shared taxes overcome some of the inflexibility of the property tax base during inflation.¹⁵

NEW MUNICIPAL TAX SOURCES

The growth of suburbs, the decline of central cities, falling property valuation, property tax limits, property tax exemptions, rising price levels, mounting expenditures, and high property-tax rates have forced cities to seek new sources of tax revenues.¹⁶ The movement began during the depression and has been spreading rapidly during the post-war inflationary period. Taxes formerly administered by states are being taken over by municipalities. These taxes have replaced the property tax in fiscal importance in some cities. In fiscally dependent city school systems supported by appropriations, such revenues are used for school support. In other cities they often provide more property-tax leeway for school support.

GROWTH OF MOVEMENT

The development of new nonproperty taxes for municipal government began in 1934 when New York City was authorized to levy a 2 percent sales tax to finance its relief burden. The city also was authorized in 1934 to tax public utilities, personal property, gross receipts, and inheritances. In 1938 a conduit tax and a cigarette tax were substituted for the inheritance tax. In 1941 a compensating use tax and in 1942 an occupancy tax were added. The cigarette tax was dropped in 1941 and the sales-tax rate was reduced to 1 percent. In 1946 it was again raised to 2 percent and the city was given power to

¹⁴ *Ibid.*, p. 90.

¹⁵ *Ibid.*, pp. 90-91.

¹⁶ See Tax Institute, *Tax-Hungry Cities* (Tax Policy, March, 1946); and *Taxing the Fluid Population* (Tax Policy, Aug., 1947).

tax hotel rooms and parimutuel betting. In 1947 and 1948 the city was further authorized to tax the sale of food and drink in cafes, bars, restaurants, and similar places where the charge to the patron exceeds one dollar, to tax public utilities, to tax retail liquor establishments, to tax admissions and amusements, to tax coin machines, and to tax motor vehicles. At the present time the city has the power to tax at least fourteen sources other than real property.¹⁷

New Orleans adopted a sales tax in 1936 followed by Philadelphia in 1938. Philadelphia replaced it with a 1.5 percent payroll tax in 1939 which has been continued since then with the rate reduced to 1 percent since 1943. The city also has a local liquor tax, an admissions tax, and amusement tax plus certain other minor tax sources. In 1940 Washington, D. C., enacted a city income tax and New Orleans adopted its present 2 percent sales tax. Washington also has taxes on motor vehicles, gasoline, insurance, estate and inheritances, liquor, and other sources. New Orleans has added liquor, gasoline, chain stores, and licenses to its tax sources.¹⁸

Since 1940, especially in recent years, the movement has spread rapidly. Business licenses or occupation taxes have become part of the revenue systems in many southern and western cities. West Virginia (1947) and New York (1948) authorized local business or occupation taxes. Sales taxes have been adopted by most California cities. Illinois, New Jersey, and New York (1947) authorized local sales taxes. Most cities in Washington since 1943 and Ohio and Pennsylvania since 1947 have adopted admissions taxes. Maryland, New Jersey, North Carolina, Tennessee (1949), and Virginia (1947) authorized such a tax. Many municipalities in Maine, Massachusetts, and Washington and at least ten other states tax motor vehicles. Local cigarette taxes are common in Alabama, Florida, Missouri, and New Jersey. All cities in New York levy utility taxes; and counties or cities over 25,000 can levy a number of business and consumption taxes. Pennsylvania (1947) authorized local governments to levy a variety of nonproperty taxes. Municipal liquor licenses are authorized in

¹⁷ *Report of New York State Tax Commission* (1945), p. 73; Laws of 1947, ch. 278; Laws of 1948, ch. 651.

¹⁸ *Tax Systems* (11th ed.), pp. 266-270.

over half the states, West Virginia being added in 1947. Most municipalities in Louisiana have local liquor taxes. The number of cities adopting other new local taxes increases every year. In 1945 alone, over 230 cities adopted new local taxes. By 1946, 242 cities reported local gasoline taxes; 176, taxes on utilities; and 35, cigarette taxes. By 1948, 390 local governments had admission taxes, 158 had income taxes, and 90, sales taxes. By 1949 the number had risen to 405 (cities over 10,000). Over \$200 million was raised by these taxes in 1948.¹⁹

TYPES OF NEW MUNICIPAL TAXES

Practically every state tax source has been exploited by municipalities: income, general sales, gross receipts, business or occupation licenses, motor vehicle and fuel, liquor, admissions, tobacco, public utilities, hotel rooms, horse racing, real estate transactions, oil wells, vending machines and amusement devices, luxury taxes, airports, and transportation and service charges.

The local income, general sales, and gross receipts taxes by themselves are large revenue producers. (1) At least eighty-five cities and other local units now have local income taxes, most of them in Pennsylvania. St. Louis, Toledo and Columbus recently adopted the income tax. Like Philadelphia and Washington, they tax income earned in the city regardless of residence. The tax applies to both personal and business income with rates varying from 0.5 percent in St. Louis to 5 percent in Washington, D. C., the typical rate being 1 percent. (2) Los Angeles, San Diego, Oakland and San Francisco, California, and Syracuse and Erie County, New York, are among the larger places recently adopting the local sales tax. Rates vary from 0.5 percent to 2 percent.²⁰ (3) The gross receipts tax, which in some instances is very similar to the sales taxes in operation and yield, is a most important source of nonproperty local tax revenues. Monroe County in New

¹⁹ *Taxing the Fluid Population* (Tax Policy, Aug., 1947), p. 5; *City Tax Legislation in 1947*, op. cit., pp. 3-5; A. M. Hillhouse, 1947 *Supplement to Where Cities Get Their Money*, pp. 1 ff., and Public Administration Clearing House, *News Releases*.

²⁰ Tax Institute, *Popular Release*, Nos. 134-135, Feb. 14, 1947; No. 1, Dec. 6, 1948.

York State recently adopted such a tax. Some variation of the tax is found in such large cities as Detroit, Boston, St. Louis, Kansas City, Louisville, Birmingham, Minneapolis, New York City, San Francisco, Seattle, Richmond, and Los Angeles as well as in many smaller cities, particularly in the south. Rates are determined by such factors as gross receipts, sales, or purchases, number of employees, number of customers, floor space, street frontage, and type of business.²¹

The admissions tax potentially could become an important source of local revenues. The federal government is deriving approximately \$450 million from this source and the states over \$100 million. These are relatively unimportant sources for the federal and state units. If both relinquished the tax to localities, the yield would equal or exceed the revenues now obtained from all local nonproperty taxes. This was recommended by the Joint Committee on the Coördination of Federal, State, and Local Taxation.²²

The other taxes individually are not so important, but the tendency is to adopt them in clusters. Baltimore has had an automobile tax, corporation tax, utility tax, tax on real-property transactions, a pari-mutuel tax, a cigarette tax, a liquor tax, and a tax on amusement devices. Chicago has special taxes on admissions, insurance companies, juke boxes, liquor establishments, barber shops, florists, restaurants, milk companies, filling stations, motor vehicles, convalescent homes, amusement devices, and currency exchanges. Boston has taxes on business, liquor, and motor vehicles. St. Louis, Kansas City, and Birmingham in addition to business licenses have taxes on motor fuels and cigarettes. St. Louis also has a liquor tax, an admissions tax, and an amusement tax. Los Angeles not only has a sales tax, a business and professional tax, but also a liquor tax and a tax on amusement devices. Seattle, in addition to business licenses, has an admissions or amusement tax. Louisville supplements its licenses with a motor vehicle tax. Providence has a tax on hotel rooms and cigarettes.²³

²¹ Public Administration Clearing House, *News Releases*, 1946-1948, and A. M. Hillhouse and M. Magelssen, *Where Cities Get Their Money* (1945).

²² Joint Committee of the American Bar Association, the National Tax Association, and the National Association of Tax Administrators, *The Coördination of Federal, State, and Local Taxation* (1947), pp. 92-93.

²³ *Ibid.*

REVENUE YIELD

New nonproperty taxes have replaced the local property tax as the major source of local tax revenues in some cities. In others they have provided a large measure of property tax relief. In New York City, Chicago, Louisville, Portland, and Buffalo only about 20 percent of local tax receipts are derived from nonproperty local taxes. Baltimore and St. Louis have obtained about a third of their revenues from local nonproperty taxes. Denver, Columbus, Atlanta, Milwaukee, Los Angeles, Kansas City, Philadelphia, and Seattle have obtained around 40 percent or more of their revenues from nonproperty taxes. Washington, D. C., Birmingham, and New Orleans, on the other hand, have derived over half their local funds from nonproperty taxes.²⁴ Recently adopted local taxes will reduce the importance of the property tax in most large cities and many of the smaller cities.

ADMINISTRATIVE PROBLEMS

The successful administration of the new local taxes depends upon such factors as the size of the city, the character of its economy, its competitive status with other cities, the extent of its metropolitan or suburban area, federal and state fiscal policies, and the confidence of the people in the general administration and expenditure program of the city. Resort cities generally find business licenses, general sales, or commodity taxes easy to administer. Generally, the cost of collecting the local admissions, gasoline, sales, and business or occupation taxes is relatively low, ranging from 1 to 2 percent of tax collections. Moreover, it is possible to use state tax-collection facilities. In Louisiana the state collects the liquor tax for municipalities.

The new taxing powers present serious dangers for cities. They probably will increase the hazard of migration both by residents and industries, which is largely responsible for bringing the new taxes into being. Temporarily, they may be able to shift some of their tax burden to transients, outside buyers and shoppers, and commuters. Ultimately, intercity and city-suburban tax competition may plague local units

²⁴ *Tax Systems* (11th ed.), pp. 266 ff., and Hillhouse and Magelssen, *op. cit.*

just as it has states. The resulting federal, state, and local tax conflicts will annoy the taxpayer and embarrass all units of government. Already the Council of State Governments through its committee on state-local relations has warned of the dangers of these conflicts, the heavy reliance on regressive taxes, and the limitations of small units for administering the taxes. They recommend the new taxes only for large cities.²⁵

EFFECT ON CITY SCHOOL REVENUES

In certain fiscally dependent city school systems where the school board derives its funds from appropriations out of total city revenues, the new local taxes become a source of school revenues. Thus, about 15 percent of city school taxes in New York City may be derived from nonproperty taxes. In Baltimore at least 25 percent of local school tax revenues may come from nonproperty tax sources. Buffalo also may obtain about a fourth of its local school revenues from a sales tax. Providence schools share in the local hotel and cigarette tax because the schools are allotted 35 percent of city revenues. In fiscally independent school systems, or dependent school systems with separate school taxes, schools do not share directly in the new nonproperty taxes. Thus, in 1945 the Philadelphia schools received all of their local tax support from property taxes. Birmingham, Kansas City, Louisville, Denver, Seattle, and St. Louis have separate school taxes.²⁶ Nevertheless, in all such cities the new taxes may provide indirect help for schools by releasing property-tax leeway for school support.

NEW LOCAL TAXES FOR SCHOOLS

Two states recently have made locally administered nonproperty taxes available for schools—New York and Pennsylvania. The New York law (1947) does not increase the taxing powers of school units, but provides for sharing certain county taxes among school districts. The Pennsylvania law (1947) broadens the taxing powers of local school government.

²⁵ Council of State Governments, *State-Local Relations* (1946), pp. 126-128.

²⁶ Henry and Kerwin, *op. cit.*, pp. 56-57.

THE NEW YORK LAW

New York State in 1947 empowered counties outside the City of New York to impose a number of taxes for educational purposes only.²⁷ As amended in 1948 the statute no longer limits the taxes to educational purposes. The levying of the taxes, the selection of the taxes to be levied, and the fixing of the rates within the limits established by law are functions of the county board of supervisors. School districts have no control over the taxes. Two or more counties or cities may enter into coöperative arrangements to levy and administer the taxes. Cities of over 25,000 population may levy the taxes. However, the maximum rates fixed by law for any tax apply to county and city taxes taken together.²⁸

The following county taxes are authorized for municipal and/or educational purposes in New York:

1. A retail sales and/or use tax on tangible personal property, not exceeding 2 percent, with foods, food products, drugs, malt beverages, medicines, eyeglasses, newspapers and periodicals, cigarettes and certain other sales excepted;
2. A tax on receipts from the sale of food or drink in restaurants, cafes, bars, and other establishments not exceeding 3 percent where the charge to the patron exceeds one dollar;
3. A tax not in excess of 3 percent of the charges for gas, electricity, telephone, telegraph, and certain other public utilities;
4. A tax on retail liquor licenses not exceeding 25 percent of the amount of the state fee for the license;
5. An admissions or amusement tax applying to theatres, operas, social and athletic or sporting clubs, roof gardens, cabarets, or other public places of amusement supplying public entertainment for profit, not exceeding 5 percent of the charge for admissions, entertainment, dues, service, refreshment, or merchandise excepting race tracks, boxing, sparring, or wrestling events, and lodge or fraternal societies;
6. A tax on vending machines for vending tangible personal property, amusement devices, and other machines vending property or

²⁷ Laws of 1947, Ch. 278.

²⁸ Laws of 1948, ch. 651.

services at a rate not exceeding \$25 a year for each machine or device;

7. A tax on the use of noncommercial passenger motor vehicles owned by residents of the county at a rate not exceeding \$5.00 a year for each vehicle weighing less than 3500 pounds and not exceeding \$10.00 a year for a vehicle weighing over 3500 pounds; and a tax on the use of trucks, buses, and other commercial vehicles used principally in the county at a rate not exceeding \$10.00 a year per vehicle excepting those used in agriculture;

8. A gross receipts tax upon a business, trade, profession, vocation, or commercial activity in the county, except a financial business, at a rate not in excess of three-tenths of a percent (three-fifths of a percent for a financial business, with certain exceptions); and

9. A tax on the occupancy of hotel, apartment, or lodging house rooms not exceeding 5 percent of the rental.

The potential yield of the sales, liquor, motor vehicle, and admissions taxes in the counties outside of New York City is estimated at \$83 million for 1947²⁹—over 30 percent more than 1946 state school aid in these counties and about 10 percent less than their total property taxes for schools for 1946. In 1946 total school aid amounted to \$63 billion in the 57 counties and total school property taxes to about \$95 million.

The county is not a basic unit for school administration in New York State. If any county adopts any of the taxes for schools, the monies collected, after deducting the cost of collection, are apportioned to all school districts according to average daily attendance. This is county tax sharing.

The method of apportionment is not fiscally sound. All school districts receive the same amount per pupil regardless of fiscal ability, property tax effort, or fiscal need. Some will get more than they require, others will not get enough. The amount coming to a school district cannot be predicted in advance and budgeted. The amount of county sharing per pupil varies from year to year depending upon the tax yield, the cost of collection, and attendance trends in other districts.

The method of apportionment also results in inequalities among

²⁹ Mabel L. Walker and W. Cocking, *The Potentialities of Local Non-Property Taxes As Fiscal Instruments in New York State* (1947).

school districts. There is no allowance for the higher costs in secondary schools. Elementary districts receive as much aid per pupil as high school districts. High school districts with a high proportion of pupils in secondary school get no more than districts with a high proportion in elementary schools. Districts that have low pupil-teacher ratios resulting from sparsity of population are penalized.³⁰

Since these taxes would be levied without regard to any measure of taxpaying ability such as value of property or income, it is not easy to measure the inequalities in the tax burden. Disregarding differences in fiscal ability as measured by income or economical assets, the new tax program would still create unequal tax burdens to finance any given state mandate. The New York State mandated salary law in the elementary schools will require an average expenditure of about \$100 a pupil above the \$100 upon which state aid was calculated at the time the county tax law was passed. To raise this amount under a sales tax in 1939 would have required a 32 percent rate in Hamilton County, a 20 percent rate in Lewis and Washington counties, and a 15 percent rate in Allegany, Schuyler, and Seneca counties. On the other hand, a 2 percent rate would have been almost enough in Albany County.

The county tax sharing plan for schools, if properly coordinated with an adequate state equalization program, would have certain advantages. To accomplish this integration: (1) State aid should be calculated upon allowances which would enable all school districts to finance state mandates and provide a defensible minimum level of schooling; (2) Each county should be required to levy one or more of the new taxes at uniform rates; (3) The yield of the county tax should be apportioned to school districts by the same pupil measures used for apportioning state support; (4) Each school district might also be required to levy a property tax at a moderate, uniform rate; (5) Where the yield of the local property tax plus the county apportionment from the other tax or taxes would not produce the allowance for equalization purposes, state aid would be provided to make up the difference. In this way, the new local taxes could be used

³⁰ See A. J. Burke, *Inequalities Under the County Educational Tax Law* (Public Education Research Bulletin, Vol. VIII, No. 1, May, 1947).

to provide greater leeway for local autonomy under the school district property tax. The tax burden placed upon the state for equalization would be reduced. The local tax burden for support of the equalization program would not be completely equalized within the county, but as between counties it would be. The limitations of intercounty competition and fiscal inequalities would be overcome somewhat.

There are two other possible ways of integrating the county tax sharing program with an equalization program; both require that the levy of one or more of the nonproperty taxes at specified rates be mandatory upon counties. Under the first plan, the share apportioned to the school district, using the same pupil measures used for state support, would be used to reduce the rate of local property taxation required for support of equalization allowances. This plan would not attain equity in the local burden of tax support among school districts except where fiscal capacity as measured by the property tax correlated highly with the share received from the county tax. The second plan would require counties to allocate to every school district from nonproperty tax sources the equivalent of the yield of a specified rate of taxation on full valuation of property in the district. Like the first, it would not necessarily mean equity in the local burden of support among school districts. It would mean unequal burdens among counties.³¹

Since the county is not the basic unit for school government in New York State and since most city school districts are fiscally independent of municipal government, the law does not give school districts a new source of revenues for local initiative. Any school district coming under the law becomes fiscally dependent upon the county unit. The source of initiative, therefore, lies in the county, not in the school district. The only way to make the county tax revenues available to school districts to supplement equalization support is to make it mandatory for counties to levy the taxes and to apportion the money to school districts according to a prescribed formula—preferably the pupil measures used in apportioning state school monies.

³¹ P. R. Mort, *Fiscal Policy for Public Education in the State of New York* (1947), pp. 107 ff.

THE PENNSYLVANIA LAW

Pennsylvania in 1932 authorized cities to levy any tax or license fee not levied by the state unit. A law passed in 1947 extended these powers to cities, boroughs, towns, townships, and school districts. The aggregate of such nonproperty taxes cannot exceed the amount the unit of government is authorized to levy under the property tax. Whenever the state adopts any tax being levied by a local unit, the local tax is repealed effective at the end of the current fiscal year of the local unit.³²

This law probably gave school districts the broadest taxing power ever given local school units by any state, since all school districts are fiscally independent in Pennsylvania. The Philadelphia school board has adopted a mercantile levy on wholesale and retail sales, a personal property tax, and a business license tax which are estimated to produce \$5 million a year. The city school system has derived about \$30 million a year from real property taxes. Pittsburgh's school district also has adopted a mercantile tax expected to produce about \$1 million a year. Pittsburgh also levies the per-capita school tax at the rate of \$5.00 for each adult, a tax which has been authorized for school districts in Pennsylvania for a long time. Other school districts in Pennsylvania are utilizing a variety of nonproperty taxes under their broad grant of power. In 1948 over twenty school systems had a local income tax similar to that levied in Philadelphia for municipal purposes. Among the other taxes used for school purposes are admissions, sales, severance, and rentals.

Amendments adopted in 1949 prohibited local taxes on coal and other natural resources, manufactured and farm products, and personal property except in Pittsburgh. School districts are prohibited from collecting wage rates on nonresidents. Double taxation was regulated. Ceilings were placed on various taxes as follows:

1. Per-capita poll or other similar head taxes \$10.
2. On each dollar of the whole volume of business transacted by wholesale dealers in goods, wares, and merchandise, 1 mill; by retail dealers in goods, wares, and merchandise, and by proprietors of restaurants or

³² House Bill No. 800.

other places where food, drink, and refreshments are served, $1\frac{1}{2}$ mills, except in cities of the second class where rates shall not exceed 1 mill on wholesale dealers and 2 mills on retail dealers and proprietors; no such tax shall be levied on the dollar volume of business transacted by wholesale and retail dealers derived from the resale of goods, wares, and merchandise taken by any dealer as a trade-in or as part payment for other goods, wares, and merchandise except to the extent that the resale price exceeds the trade-in allowance.

3. On wages, salaries, commissions, and other earned income of individuals, 1 percent.
4. On retail sales involving the transfer of title or possession of tangible personal property, 2 percent.
5. On sales involving the transfer of title of real property, 1 percent.
6. On admissions to places of amusement, athletic events, and the like, 10 percent.

POTENTIALITIES FOR LOCAL INITIATIVE

The analysis of the property tax as a basis for local initiative in school government has shown that school units have been handicapped by the overall property tax burden, property tax limits, and debt limits based upon the assumption that debt service had to be met by property taxes. In a period of inflation local units are handicapped by the sluggishness of the property tax base in adjusting to changed values. Although property tax reform would increase the effectiveness of the tax as a fiscal instrument for local school government, the problem of overlapping units taxing the same source will remain. Nor does the property tax any longer enable local units to reach their own resources independently.³³ The vitality of local school government will depend upon freeing all or a large part of the property tax base for school support or the finding of other sources of local taxation.

Another important justification for extending the taxing powers of localities is that personal property has escaped taxation under the property tax either through administration or law. Under our economy personal property has grown in importance, sometimes equaling or exceeding the value of real property. Personal property has taken on myriads of forms and it is physically impossible to tax it under property

³³ Committee on Intergovernmental Fiscal Relations, *Federal, State, and Local Governmental Fiscal Relations* (1943), pp. 413 ff.

tax institutions. It is far better to attempt to tax such property at the time of sale rather than to attempt to tax it year after year through an assessment procedure.

In reviewing the place of local nonproperty taxes in the financing of public schools, two basic considerations must be understood. (1) The federal and state units are responsible for assuring a reasonable minimum or foundation program of school services. No community is educating only its own citizens under modern conditions of mobility of population. Where lack of fiscal capacity prevents localities from maintaining an acceptable level of schooling with a reasonable tax effort, central governments must supplement local taxes. (2) Local units must assume responsibility for supporting variations from and extensions of the basic program guaranteed by central governments. Innovations and higher standards should be financed from local tax resources. No state can meet its responsibility for equalization through the granting of increased taxing powers to school districts.

FREEING THE PROPERTY TAX BASE

The real property tax probably is the only tax with a large yield that can be administered by the typical unit of school government. It is well suited for the units of government where the citizens vote upon the budget in a district meeting, since the rate can be varied from year to year to meet the budgetary requirements of the year. The nonproperty local taxes with any significant yield can be administered well only by large units such as a county or a large city. Hence, the best possible use of the locally administered nonproperty taxes would be to free the property tax base for school government. Counties might withdraw from property taxation as most states have done. Municipalities might turn over part of their property tax base to city school districts and levy nonproperty taxes in their place. This was proposed as the best solution in New York State.³⁴

DIRECT USE FOR LOCAL INITIATIVE

The Pennsylvania law provides for the direct use of local nonproperty taxes by school units for local initiative.³⁵ No other local

³⁴ Mort, *op. cit.*, p. 103.

³⁵ Tax Institute, *More State Aid or More Local Taxes* (1948).

unit of government exercises any control over the amount to be raised, the taxes to be utilized, or the rates to be established. The New York law, on the other hand, gives no additional taxing powers to local school districts for the exercise of local control. The school districts become fiscally dependent upon county government under the local tax program. The county makes the ultimate decision as to amount, taxes, and rates. What the school districts receive depends upon a tax-sharing device and not upon the local school budget. The New York statute, therefore, is subject to all of the limitations of shared taxes. The only way the New York law could be administered for the financing of local initiative in school districts is to require counties to levy certain taxes at specified rates and to apportion the money to school districts according to an objective and equitable formula written into state law.³⁶ Such monies then would be used to supplement the basic equalization program or to create tax leeway for initiative by reducing the school property tax rate.

LIMITATIONS OF SUCH LOCAL TAXES FOR SCHOOL SUPPORT

Nonproperty, local taxes for school districts by themselves are subject to many limitations as a source of public school revenues. They do not correct differences in fiscal capacity and the inequalities in services and tax burdens. They do not provide property tax relief where it is most needed. They increase intercommunity and federal, state, and local tax conflicts. They may involve inefficient and costly tax administration and increase inconvenience to the taxpayer. Under a law like that adopted in New York, taxpayers associate school expenditures with the new taxes, but other local units can increase their expenditures without increasing the existing property tax burden. Municipalities share in the benefits, but school systems get the blame for the taxes.

Public education is not a purely local function. No local unit is educating only its own future citizens. It will receive citizens from other localities, it will send its youth to other communities. Cities in particular depend upon rural migration to maintain their economic systems and populations. Citizens in all communities participate in state gov-

³⁶ Mort, *op. cit.*, p. 107.

ernment. Every locality, therefore, is concerned with educational provisions and standards in every other section of the state and education becomes a state responsibility. Our state constitutions, laws, and court decisions have recognized that public education is a state responsibility. Under this doctrine, legislatures have mandated compulsory schooling, educational provisions, qualifications of teachers, teachers' salaries, and numerous other requirements affecting schools and their management. School boards and school districts were created as state agencies of local jurisdiction, a fact that has been recognized in many court decisions. At the very time that the legislature adopted the county tax program in New York it recognized education as a state responsibility by mandating minimum salaries for teachers.

The implication of home rule is that the state will finance its mandates completely or pay the cost of meeting the mandates over a reasonable and moderate local tax. Only if this policy is pursued are localities free to exercise home rule, because when state mandates require a disproportionate share of local taxes, there is little local taxing power left for home rule. The authorization of new local taxes by itself, therefore, does not enhance home rule even in states that give school districts added taxing powers. The state either must repeal all mandatory laws relating to public education or it must guarantee that the new local taxes will be available for home rule by providing sufficient grants-in-aid to pay the cost of state mandates over the yield of a moderate and uniform local tax effort. This would leave the difference between the minimum and the maximum rates for the exercise of home rule in the various units for school government.

FISCAL CAPACITY AND SERVICE LEVELS

Local units vary in fiscal capacity to pay nonproperty taxes as well as property taxes. Cornell's study in New York State based upon weighted economic indices of economic resources shows that the same counties that rank low or high on property valuation as an index of ability tend to rank in the same class on such measures as retail sales and motor vehicle registrations.³⁷ A high correlation was found be-

³⁷ F. G. Cornell, *A Measure of Taxpaying Ability of Local School Administrative Units* (1936).

tween the property tax base and the nonproperty tax bases in New York State counties.³⁸ Edwards found a high degree of imbalance between the economic resources of counties and their educational load. Counties with high educational loads tend to rank low on economic resources. Counties with the lowest educational loads generally rank highest on economic resources. These facts mean extreme inequalities in educational opportunities even with very unequal tax burdens.³⁹

Most western states after 1825 adopted county property taxes to supplement school district taxes. By 1920 the county tax had become almost as important as state taxes as a source of public school revenues. However, as states came to recognize the inequalities in educational opportunities and tax burdens resulting from this policy, they shifted the burden to state taxes. Today, the county has become an insignificant source of public school revenues, and states on the average are providing between 40 and 50 percent of the revenues.⁴⁰

PROPERTY TAX RELIEF

The foregoing facts seriously restrict new local taxes as a means of providing property tax relief. The very school districts that need property tax relief the most—those in sparsely settled, rural counties—are the ones that can raise the least under the local nonproperty taxes. They have the highest property tax rates not only for schools but also for town, village, and county government. Yet they do not have the fiscal capacity to raise much under other local taxes levied at maximum rates. Their property tax burden can be reduced only by transfer of functions, grants-in-aid, or state collected-locally shared taxes.

The new taxes generally authorized are consumption taxes which are regressive in that the lower the income of the taxpayer the higher the percentage of the income taken in taxes. It is true that such taxes tend to be less regressive than property taxes. Yet the relief to home owners and rent payers is not as great as it would be from state assistance from a diversified tax system. Even if the state must supplement

³⁸ Mort, *op. cit.*, p. 106.

³⁹ Newton Edwards, *Equal Educational Opportunity for Youth* (1939), ch. IV.

⁴⁰ See ch. V.

ernment. Every locality, therefore, is concerned with educational provisions and standards in every other section of the state and education becomes a state responsibility. Our state constitutions, laws, and court decisions have recognized that public education is a state responsibility. Under this doctrine, legislatures have mandated compulsory schooling, educational provisions, qualifications of teachers, teachers' salaries, and numerous other requirements affecting schools and their management. School boards and school districts were created as state agencies of local jurisdiction, a fact that has been recognized in many court decisions. At the very time that the legislature adopted the county tax program in New York it recognized education as a state responsibility by mandating minimum salaries for teachers.

The implication of home rule is that the state will finance its mandates completely or pay the cost of meeting the mandates over a reasonable and moderate local tax. Only if this policy is pursued are localities free to exercise home rule, because when state mandates require a disproportionate share of local taxes, there is little local taxing power left for home rule. The authorization of new local taxes by itself, therefore, does not enhance home rule even in states that give school districts added taxing powers. The state either must repeal all mandatory laws relating to public education or it must guarantee that the new local taxes will be available for home rule by providing sufficient grants-in-aid to pay the cost of state mandates over the yield of a moderate and uniform local tax effort. This would leave the difference between the minimum and the maximum rates for the exercise of home rule in the various units for school government.

FISCAL CAPACITY AND SERVICE LEVELS

Local units vary in fiscal capacity to pay nonproperty taxes as well as property taxes. Cornell's study in New York State based upon weighted economic indices of economic resources shows that the same counties that rank low or high on property valuation as an index of ability tend to rank in the same class on such measures as retail sales and motor vehicle registrations.³⁷ A high correlation was found be-

³⁷ F. G. Cornell, *A Measure of Taxpaying Ability of Local School Administrative Units* (1936).

tween the property tax base and the nonproperty tax bases in New York State counties.³⁸ Edwards found a high degree of imbalance between the economic resources of counties and their educational load. Counties with high educational loads tend to rank low on economic resources. Counties with the lowest educational loads generally rank highest on economic resources. These facts mean extreme inequalities in educational opportunities even with very unequal tax burdens.³⁹

Most western states after 1825 adopted county property taxes to supplement school district taxes. By 1920 the county tax had become almost as important as state taxes as a source of public school revenues. However, as states came to recognize the inequalities in educational opportunities and tax burdens resulting from this policy, they shifted the burden to state taxes. Today, the county has become an insignificant source of public school revenues, and states on the average are providing between 40 and 50 percent of the revenues.⁴⁰

PROPERTY TAX RELIEF

The foregoing facts seriously restrict new local taxes as a means of providing property tax relief. The very school districts that need property tax relief the most—those in sparsely settled, rural counties—are the ones that can raise the least under the local nonproperty taxes. They have the highest property tax rates not only for schools but also for town, village, and county government. Yet they do not have the fiscal capacity to raise much under other local taxes levied at maximum rates. Their property tax burden can be reduced only by transfer of functions, grants-in-aid, or state collected-locally shared taxes.

The new taxes generally authorized are consumption taxes which are regressive in that the lower the income of the taxpayer the higher the percentage of the income taken in taxes. It is true that such taxes tend to be less regressive than property taxes. Yet the relief to home owners and rent payers is not as great as it would be from state assistance from a diversified tax system. Even if the state must supplement

³⁸ Mort, *op. cit.*, p. 106.

³⁹ Newton Edwards, *Equal Educational Opportunity for Youth* (1939), ch. IV.

⁴⁰ See ch. V.

its income tax yield with consumption taxes, it can levy these at moderate rates. The localities that need property tax relief the most must levy consumption taxes at the maximum rates to produce an insufficient amount of revenue to provide tax relief and at the same time finance state mandates and maintain minimum levels of service.

TAX CONFLICTS

Intercommunity conflicts and competition will prevent many localities from adopting a nonproperty tax program. Economic life is no respecter of arbitrary governmental borders. The natural trading center of several counties may be in a single city, e.g., in New York State, Glens Falls draws heavily from Warren, Washington, and Saratoga counties. Two or more adjacent counties may have competing trading centers very close together, e.g., Albany, Rensselaer, and Schenectady counties in New York State. Suburban counties may lean heavily upon a metropolitan area and not be able to raise much by county taxation in spite of their apparently high degree of fiscal capacity, e.g., Rockland, Westchester, Nassau, and Suffolk counties do much of their buying in New York City. Such counties must continue to rely heavily upon property taxation in the absence of state assistance.

Federal, state, and local tax conflicts will be accentuated by the program. The income tax is a very unstable source of state revenues. Allocating the sales tax to the localities may seriously restrict the states in finding or fully exploiting this relatively stable source of revenues in the future. Motor vehicles and alcoholic beverages both are heavily taxed by the federal and state units. The federal government already is imposing heavy taxes on vending machines, admissions, and amusements.

ADMINISTRATION

Tax experts generally have considered the property tax as the one tax that can be best administered on the local level. Even this tax is subject to intercommunity competition, although land cannot be moved and buildings once erected are difficult to move. Localities have found it almost impossible to administer the personal property

tax. The new local taxes will be subject to all of the limitations of the locally administered personal property tax. Although New York City has about the same fiscal capacity as the state of California, its sales tax produces an insignificant yield compared with the yield in California. Consumers cannot avoid a state sales tax as easily as they can avoid a locally administered one. Certain locally administered non-property taxes may prove ultimately to be very expensive and inefficient. Collection on a state-wide basis would be cheaper than creating new and duplicating tax collection agencies in every locality. In small units the volume of collections would hardly justify the expense.

FISCAL RESPONSIBILITY

In units with a high degree of taxpaying capacity the property tax relief provided by new local or municipal taxes earmarked for schools may enable other units of government to increase their expenditures without increasing the existing total property tax burden. Yet attention will be centered upon school expenditures financed by the new taxes. For example, in Erie County in New York State, the 1 percent sales tax for schools produces about \$4 million a year. The city of Buffalo receives over \$3 million for schools, part of which could go for property tax relief. Yet the taxpayers get no relief, because the city uses for other city purposes the property taxes that formerly went to schools.

One of the chief advantages of the property tax base is that it is a direct tax. In fiscally independent school systems taxpayers know the extent to which schools are responsible for their property taxes. They can hold school authorities responsible for efficiency and prudent spending. Except for the locally administered income tax, most of the important nonproperty taxes are indirect taxes. The taxpayer is not aware of his exact tax burden. Inequities in tax burdens can go unnoticed. Citizen interest in management of government is not fostered by such a tax program. It really makes little difference whether or not such indirect taxes are levied by the federal government, the state, the county, or a large city insofar as citizen interest in government is concerned. Yet the strongest advocates of expanded local taxing powers in lieu of increased central grants-in-aid or shared taxes cite greater

citizen control over spending as the chief advantage to be gained. If expanded local taxing powers have a virtue, it lies in enabling localities to reach their own resources for self-government. Another advantage is that such nonproperty taxes enable localities to reach personal property which has escaped or has been exempted from property taxation. Personal property is becoming increasingly significant in our economy.

SUMMARY

The older locally administered nonproperty taxes for schools were relatively unimportant as sources of school revenues. Appropriations for schools from other local units of government obtaining part of their revenues from state collected-locally shared taxes have been somewhat more important in fiscally dependent school systems. Since a large majority of school districts do not receive support from other local units, such appropriations have accounted for a very small part of total public school revenues.

There is a growing tendency for local units of government to adopt locally administered nonproperty taxes. In fiscally dependent school systems, these taxes sometimes provide a relatively substantial part of school revenues. Pennsylvania has given school districts very broad powers to levy nonproperty taxes. The New York law is not very practicable for school districts, but county nonproperty taxes could be integrated into a school finance system.

The potentialities of locally administered nonproperty taxes for local initiative in education should be explored. The Pennsylvania experience should be carefully appraised. Such taxes might provide the flexibility in local revenues which the property tax lacks. They might provide a substitute for the personal property tax which is difficult to administer. The limitations of the taxes must be recognized. They are not a substitute for property taxation or central support. They supplement it.

READINGS

Allen and Brownlee (1), ch. XXIII; Council of State Governments (31), pp. 121 ff.; Groves (75), ch. XXI; Hutchinson (86); Mort (110), Appendix I; Walker and Cocking (183).

CHAPTER VIII

State Taxation for Public Schools

Modern state tax systems are a twentieth-century development. Prior to 1900 the property tax was the main source of state tax revenues; and state property tax revenues were used to stimulate increased local taxation for schools. The state was a relatively unimportant taxing unit. As new nonproperty taxes were introduced there was a tendency at first to dedicate at least part of the yield to state school support. This policy later gave way to general fund school appropriations which made schools dependent upon state tax systems as a whole. The depression (1930 to 1935) and inflation accompanying and following the war (1940-1949) brought about increased state tax support for schools and state school funds were used to reduce the local property tax burden. The state replaced local government in importance as a taxing unit. Although state tax effort to support schools generally decreased 1940 to 1948, most states have come to rely upon state taxation for a large part of public school revenues. It is necessary, therefore, to review state tax systems, what constitutes a sound state tax system, the place of specific taxes in the system, the limitations of state tax systems, and needed reforms in state tax administration.

GROWTH OF STATE TAXATION

The development of "nonproperty tax" sources of state tax revenues has taken place largely since 1920. The first successful state-administered income tax was passed by Wisconsin in 1911; in 1919 only seven states had such laws: Delaware, Massachusetts, Mississippi, Mis-

souri, New York, North Dakota, and Wisconsin. In 1928, the number was still only eleven. One year later, twenty states had personal and corporate income tax laws and three others had corporate income taxes. Oregon adopted a tax on gasoline in 1919; by 1929, all states had such a tax. In 1929 only two states, Georgia and West Virginia, had general sales taxes; four years later seventeen states had such a tax. In 1929 only eleven states had tobacco taxes and national prohibition precluded alcoholic beverage taxes. By 1937 all states were levying taxes or deriving monopoly revenues from alcoholic beverages; and nineteen states had tobacco taxes. All states except Nevada imposed death taxes. Thirty-three states had enacted income taxes; and twenty-three had general sales taxes. Between 1937 and 1944 state tax systems remained relatively stable (one less state had an income tax). The number with tobacco taxes increased to thirty-one. Unemployment compensation taxes appeared in all states. Since 1945 more states have adopted general sales taxes, bringing the total to twenty-seven. Now thirty-nine states have tobacco taxes and thirty-four, income taxes.¹

During the period 1919 to 1948 state property taxes dropped from the major source of state tax revenues to a relatively minor source, with income and inheritance taxes combined and motor vehicle taxes changing very little in fiscal importance. The percentage derived from taxes on businesses decreased but the gasoline and other sales taxes and unemployment compensation taxes, which did not exist in 1919, became important. Wartime restrictions temporarily decreased the yield of the motor vehicle and motor fuel taxes, but by 1948 motor fuel taxes reached a new high with collections exceeding \$1.2 billion. The state tax with the largest yield is the general sales tax (nearly \$1.5 billion in 1948). In 1948 about 60 percent of state taxes exclusive of unemployment compensation was derived from general or selective sales taxes.²

IMPORTANCE OF STATE TAXES

With the development of state tax systems designed to reach the income of the people directly rather than through a general property

¹ See *Book of the States*, 1944-1945, 1945-1946, and 1948-1949.

² See Table 8.

TABLE 8. Changes in Sources of State Tax Revenues, 1919-1948

Tax	1919 ^a		1948 ^b	
	Amount (millions)	Percent of Total	Amount (millions)	Percent of Total
Property	\$296	56.1%	\$ 282	3.6%
Income	5	1.0	506	6.4
Death and Gift	46	8.7	187	2.3
Gasoline	—	0.0	1,265	16.1
Sales (other)	—	0.0	2,247	28.7
Business	117	22.1	1,169	14.8
Motor vehicle	44	8.3	625	8.0
Unemployment compensation	—	0.0	1,059	13.5
Other	20	3.8	526	6.6
Total	\$528	100.0%	\$7,866	100.0%

^a *The Economic Almanac*, 1945-1946, p. 122.

^b U. S. Census Bureau, *State Tax Collections*, 1948.

tax, the state unit has become a major taxing unit. In 1949 total state tax revenue amounted to over \$8.3 billion, about sixteen times what it was in 1919. State tax revenues now exceed local tax revenues, whereas in 1930 state tax collections equaled only about 36 percent of local tax collections; and in 1919 state taxes amounted to less than a fourth of local tax yields.³

TABLE 9. State Tax Collections in the United States, 1890-1949

Year	Amount in Millions	Percent of Total Federal, State, and Local Taxes	Ratio of State to Local Tax Collections
1890	\$ 96 ^a	11.0%	.24
1903	155 ^a	11.2	.22
1913	300 ^a	13.8	.25
1920	636 ^b	6.9	.22
1930	1780 ^b	17.3	.36
1940	4157 ^b	34.9	.79
1945	5483 ^c	10.0	1.16
1946	6014 ^d	11.8	1.28
1947	6767 ^d	12.9	1.19
1948	7866 ^d	15.0 ^e	1.22 ^e
1949	8342 ^d	16.0 ^e	1.24 ^e

^a W. J. Shultz, *American Public Finance* (1938), p. 294.

^b *The Economic Almanac*, 1945-1946, p. 107.

^c *Tax Systems* (10th ed.), p. 270.

^d Bureau of Census, Department of Commerce, *State Tax Collections* (1947, 1948, 1949).

^e Estimated.

³ See Table 9.

DEDICATED STATE SCHOOL TAXES

During the period 1920 to 1933 there was a tendency for states to dedicate all or part of new tax sources for school support. Massachusetts (1919) provided for a school fund to be financed by an income tax. North Carolina (1921) levied an income tax to eliminate the state general property tax for schools. The 1921 income tax law of Delaware was specifically dedicated for school revenues. Arkansas enacted an income tax law in 1923 for the sole purpose of school support. The revised Wisconsin income tax law (1928) provided that the state retain 40 percent of the receipts mainly to support schools. One-half the receipts of the Georgia income tax (1929) had to be allocated to schools. The Missouri income tax law (1929) was allocated to the general fund but schools were entitled to one-third of such revenues.⁴

In 1928 the schools had claims upon certain tax sources other than the general property tax in over half the states—all except Arizona, Colorado, Connecticut,* Idaho,* Illinois, Iowa,* Maryland, Mississippi,* Nevada, New Mexico, North Carolina,* North Dakota,* Ohio,* Oregon,* Pennsylvania,* Rhode Island,* South Carolina,* South Dakota,* Washington, and Wyoming (*no lien or any specific state tax). At the time over half the states depended heavily upon earmarked taxes for state school revenues.⁵

DOWNWARD TREND AFTER 1933

Since 1933 the policy of dedicating all or part of specific state taxes for schools has been losing favor.⁶ Only three of the seven states imposing new personal income taxes from 1933 to 1939 earmarked them for schools—Colorado, Louisiana, and South Dakota. Only nine of twenty-four levying new alcoholic beverage taxes required their use for school support.

In 1948 only ten states derived most of their state school revenues from dedicated school taxes. Most of these have relied upon this policy for a long time, including Alabama, Illinois, Louisiana, Massachusetts,

⁴ See F. H. Swift, *Federal and State Policy in Public School Finance in the United States* (1931), pp. 152 ff.

⁵ *Ibid.*

⁶ National Education Association, *Research Bulletin*, Vol. XII, No. 1, Jan., 1934.

Michigan, Minnesota, New Mexico, Texas, and Utah. North Dakota has adopted the policy since 1928. Although they get most of their state school revenues from appropriations, five other states have earmarked school taxes which provide most of the appropriations—Kansas, Missouri, Oregon, Tennessee, and West Virginia. Alabama, Florida, Louisiana, Missouri, New Mexico, Tennessee, Texas, and Utah have liens on a number of state taxes. Illinois, Kansas, Michigan, North Dakota, and West Virginia get most of their school money from the sales tax; Massachusetts, Minnesota, and Oregon from the income tax.⁷

Eleven other states still had dedicated state school taxes, but they derive most of their revenues from appropriations. In Arkansas, Nevada, New Hampshire, Virginia, and Washington a very small percent is obtained from earmarked sources. Indiana, Montana, Nebraska, Oklahoma, and Wyoming have from 10 to 31 percent of earmarked state school revenues.⁸ Florida obtains nearly half of its state school funds from earmarked sources.

GENERAL FUND APPROPRIATIONS FOR SCHOOLS

General fund appropriations for school support are increasing; schools are becoming dependent upon the total state tax system. Over three-fourths of the states now derive all or most state school revenues from appropriations. In 1928 twelve states obtained all of their school support from general fund appropriations or permanent funds, although four of these states had first call upon certain taxes.⁹ By 1949 the number had increased to twenty-five. These are Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Iowa, Kentucky, Maine, Maryland, Mississippi, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Vermont, and Wisconsin. Arkansas, Kansas, Missouri, Nevada, New Hampshire, Virginia, Washington, and West Virginia have virtually 100 percent support from appropriations. The other five states that derive most of their school

⁷ National Education Association, *School Finance Systems* (1947-1948) and Council of State Governments, *The Forty-Eight State School Systems*, p. 226.

⁸ *Ibid.*

⁹ Swift, *op. cit.*, p. 127.

revenues from annual appropriations (or permanent funds) are: Indiana, Montana, Nebraska, Oklahoma, and Wyoming.¹⁰

REASONS FOR APPROPRIATION POLICY

The policy of earmarking specific taxes for public school support was an outgrowth of another policy in public school finance. When state aid systems did not guarantee the financing of a definite state program, but only provided for a per-capita apportionment of whatever state funds were available, school authorities were reluctant to trust changing legislatures. They feared drastic changes in annual appropriations as legislatures changed; they feared political control of school outlays; they feared the pressure of special educational interests; they feared diversion of school funds to other state purposes. Where per-capita apportionments varying from year to year still persist, the arguments for earmarked tax sources are still potent.

With the advance in the concept of state financing of a definite minimum or foundation program throughout the state, earmarked school taxes lost their appeal. The only method of guaranteeing such a program every year is to make the legislature responsible for appropriating the funds required. Where the funds depend upon the yield of specific taxes, deficiencies occur. The amount of aid is not predictable unless the legislature is mandated to provide the funds necessary to finance the program adopted.

The breakdown of the local property tax and the shrinking of the yield of earmarked taxes during the depression caused school officials to reconsider their attitude toward earmarked tax sources for schools. Demand grew for a definite state aid program which was predictable in amount according to such factors as attendance, and a fixed allowance per unit with support guaranteed from appropriations from the general fund.

General fund appropriations also are favored by governmental authorities. They enable fiscal officers to plan budgets for all state services and to adjust the whole tax system according to budgetary requirements. Both expenditures and revenues can be planned in advance.

¹⁰ National Education Association, *School Finance Systems* (1948), and Council of State Governments, *The Forty-Eight State School Systems*, p. 226.

All service requirements can be weighed one against another. The tax system can be viewed as a whole. Surpluses from one tax can be used to offset deficiencies in another. All services can be assured equitable treatment. Responsibility for financing all items in the budget is fixed.

The important consideration as far as school finance is concerned is not "earmarking" versus appropriation. The question is one of predictability or stability. The state must provide enough monies to guarantee a reasonable level of education throughout the state based upon the number of pupils to be served and the services to be provided. School districts must be able to determine in advance how much they will receive from the state for the coming year. The state must be mandated to appropriate the funds required to finance the state's share of the program. If deficiencies occur in earmarked tax yields, they must be made up by appropriations from the general fund.

NEED FOR FLEXIBILITY CONTINUES

There is an advantage in earmarked state revenue sources for schools which must not be overlooked. Most state taxes fluctuate according to changes in incomes and prices. During inflationary periods yields increase, during depressions yields decrease. Dedicated taxes enable schools to adjust to economic cycles. They introduce a degree of flexibility not available in local property taxes.

The emphasis in state school aid has been upon predictability and stability. The current inflation shows the need for some flexibility. Of course, in most states this is an academic issue. State-supported programs are so low that any increase should be a permanent one. Yet as more states approach adequately supported state programs, flexibility to meet fluctuating prices and income levels becomes increasingly important. Earmarked revenues provide a crude method for attaining some flexibility; but corrections in the state aid allowances according to an index of prices and/or incomes would provide a far better method of attaining flexibility.

Whether specific taxes are earmarked for school support or schools derive their funds from the state general fund, the important question is the soundness of the state tax system which provides most of

the revenues. Where general fund appropriations provide a substantial part of the revenues, the soundness of the tax system as a whole must be appraised. Where specific taxes provide a large part of the revenues, these taxes must be examined critically.

STATE TAXES AND SCHOOL SUPPORT

Increased state taxation and appropriations for schools generally have accompanied the expansion of state tax systems, but increases in state school revenues have not kept pace with total state tax revenues until recently. Nor have the schools in all states benefited by increased state taxes. In other states, increased state tax support for schools will not come until modern tax systems are developed. From 1920 to 1930 state school taxes and appropriations rose from about \$134,279,000 to \$329,312,000, or 145 percent; from 1930 to 1940 the amount rose to \$682,973,000 or another 108 percent increase. The increases in total state tax revenues during these periods, however, were 237 percent and almost 210 percent, respectively. Between 1940 and 1948 all state support for schools increased to over \$1,500,000,000, or over 120 percent.¹¹ During the same period, state tax revenues increased from \$4,157,000,000 to about \$7,866,000,000, or about 89 percent.¹²

STATE TAX EFFORT FOR SCHOOL SUPPORT

Seven of the twelve states with the highest ability to tax themselves ranked relatively high in state taxes for schools in 1947-1948—New York, California, Maryland, Nevada, Delaware, Ohio, and Oregon. The other five include Massachusetts, New Jersey, Illinois, and Rhode Island, which rank in the lowest fourth in state school support per pupil and Connecticut, which ranked in the lowest half. Yet New Mexico and West Virginia, in the poorest fourth of the states, make the top fourth in state support for schools. Alabama, Louisiana, North Carolina, and Tennessee are among the poorest states, but they rank in the upper 50 percent in state school support. Arizona, Arkansas, Florida, Georgia, Kentucky, Michigan, Mississippi, Oklahoma, and South Carolina rank much higher in state school support than they do in

¹¹ See ch. V.

¹² Table 9.

fiscal ability and they provide more for schools than states with much more taxpaying ability.¹³

The twelve states which devoted the highest percentages of the estimated income of their citizens to state school support in 1947-1948 are New Mexico, Alabama, Delaware, Washington, North Carolina, West Virginia, Florida, Utah, Arkansas, South Carolina, Louisiana, and Tennessee. These states devote at least 1.4 percent of their income to support of schools on the state level. Those which rank at the bottom in this respect include Nebraska, Massachusetts, New Jersey, Rhode Island, Illinois, South Dakota, Wisconsin, New Hampshire, Iowa, Connecticut, North Dakota, and Vermont. These states do not devote over 0.5 percent of their income to state school support.¹⁴

OTHER LOCAL ASSISTANCE

Some states that ranked low on percent of school revenues derived from state sources ranked relatively high on state assistance to local government. Wisconsin has devoted over 60 percent of its state revenues to local assistance. Colorado and Massachusetts have shared over 50 percent of their state revenues with local units. Kansas, New Jersey, and Nebraska have allocated between 40 and 50 percent of their monies for localities. Iowa has provided between 30 and 40 percent. Local assistance to other units of government does not directly help schools in Colorado, Kansas, Nebraska, and Iowa, where school districts are independent units. Most school districts in Wisconsin and New Jersey are independent and receive no direct help from such aid to local government.

Other states rank high in both assistance for local government and for schools, especially Alabama, California, Michigan, Ohio, and South Carolina. Indiana and New York provide substantial local assistance and rank fairly high on state assistance to schools. Connecticut, Idaho, Illinois, Maine, Montana, Nevada, New Hampshire, North Dakota, Rhode Island, South Dakota, and Vermont have ranked low on all local assistance.¹⁵

¹³ J. K. Norton and A. J. Burke, *The Potentialities of the State Tax System in the Financing of Public Schools in New York State* (1947).

¹⁴ *Ibid.*, corrected.

¹⁵ *The Book of the States, 1948-1949*, pp. 264-265, and U. S. Census Bureau, *State Aid to Local Governments* (1949).

STATE TAX SYSTEMS AND THEIR APPRAISAL

With public schools largely dependent upon state appropriations for money in most states, state tax systems have become the main source of state revenues for schools. In the country as a whole, general sales taxes and taxes upon specific items of consumption provide over half of state tax revenues after excluding unemployment insurance taxes. The remainder comes from income taxes and miscellaneous taxes upon business and natural resources. As to specific taxes, the general sales tax ranks first, followed by motor fuel, taxes on business, unemployment compensation, motor vehicles, and income, in that order.¹⁶

VARIETY OF SYSTEMS

The state totals hide the variations among the states. The dependence upon consumption taxes has ranged from 24.3 percent in New Jersey and New York to 90 percent in South Dakota. The importance of the income and inheritance taxes has varied from zero in states like Nevada and New Jersey to 41.6 percent in Massachusetts. The state property tax does not exist in states like California, Delaware, and New York, but still accounts for 22.2 percent of the state tax collections in Nevada.¹⁷

Generally the states with the lowest fiscal capacity rely most heavily upon general sales or commodity taxes: Alabama, Arizona, Arkansas, Florida, Georgia, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Utah, and West Virginia. The exceptions are California, Colorado, Connecticut, Illinois, Indiana, Michigan, New Hampshire, Ohio, Rhode Island, Washington, and Wyoming. Other states raise over half their tax revenues through consumption taxes when payroll taxes for unemployment insurance are excluded: Idaho, Kentucky, Maine, Maryland, Nevada, North Carolina, Vermont, and Virginia. Only ten states do not rely upon consumption taxes for most of their tax revenues: Delaware, Massachusetts, Minnesota, Montana,

¹⁶ See Table 8.

¹⁷ *Tax Systems* (10th ed.), pp. 273 ff.

New Jersey, New York, Oregon, Pennsylvania, Texas, and Wisconsin. Most of these have balanced tax systems with more reliance upon income taxes. Delaware, New Jersey, and Pennsylvania rely heavily upon licenses. Texas depends to a large extent upon severance taxes.¹⁸

CRITERIA FOR APPRAISAL

Certain criteria have been developed for appraising the soundness of a tax system. The first test of any tax system is fiscal adequacy. Does it yield the public revenues required to finance governmental undertakings? A second test is the cost of administration. Are the revenues collected at a cost which bears a reasonable relationship to the amount collected? A third test is flexibility. Does the revenue system adjust as needs or economic conditions change? A fourth test is stability. Does the revenue system provide a degree of stability during periods of economic stress? A fifth test is justice. Are the burdens of supporting government equitably distributed? A sixth test is convenience. Do the collection dates, methods and manner of payment serve the convenience of the taxpayers? A seventh test is economic soundness. Does the tax system tend to restrict ability to pay taxes in the future? A final test is simplicity. Can the system be administered effectively? Can the public comply with understanding and ease?¹⁹

BENEFIT THEORY

The concept of benefit in taxation has gained an acceptance far beyond its validity. It has been used to justify the earmarking of certain taxes for specific purposes, e.g., gasoline and motor vehicle taxes for roads. It has been used to justify property taxes and special assessments. It has been used to justify taxes for protection, education, and public health. A careful analysis of governmental benefits would explode the apparent reasonableness of most arguments supported by the benefit theory. The earmarking of gasoline taxes and motor vehicle revenues for highways serves as a good illustration. To many such earmarking seems reasonable—the more one uses the roads the more he pays under the gasoline tax. Yet what do we find? Are roads the only public ex-

¹⁸ *The Book of the States*, 1948-49, pp. 240-241.

¹⁹ See H. L. Lutz, *Public Finance* (1936), ch. XVI.

pense caused by the motor vehicle? Are the taxes collected sufficient to cover the costs of roads?

The fact is that many governmental services—including roads, public education, public health services, protection, welfare, and others—are for the benefit of all, not only in this generation but in succeeding generations. The specific benefits received by any one person for any one year are practically impossible to measure. However, where government engages in business enterprises providing services not deemed at the time to be essential to the general welfare, such as insurance, postal service, or streetcar lines, service charges are defended upon the benefit theory. Yet, even in such cases it is a question of public policy. Why should there be service charges for postal service and none for using state parks? Why should the property owner sometimes be assessed for sidewalks used mostly by others when streets sometimes are constructed by general taxation or gasoline taxes?²⁰

ABILITY THEORY

According to the ability theory of taxation all persons benefit directly or indirectly by most services of government and all should pay for such services according to their ability to pay taxes. Like benefits, ability is not easy to measure. Ability really implies physical, mental, and acquired capacities to produce goods and services. A person may have the ability to produce, but may fail to do so through adverse circumstances, bad habits or attitudes, or other reasons. Talent and effort do not always go together. Unfortunately, a tax upon the indolent would not produce public revenues. In making practical application of the ability theory some index of ability has to be used: property owned, expenditures, or net income. Of these, the most favored one is net income. It stands the pragmatic test under modern conditions; it attempts to attain a rough measure of justice.

Using net income as an index of ability to pay taxes simplifies the problem of measuring ability, but does not eliminate it. How is net income to be defined? Are "earned" and "unearned income" to be treated alike? How are capital gains and losses to be treated? What is the relative emphasis to be placed upon "sacrifice" versus "capacity to as-

²⁰ See Harold Groves, *Financing Government* (1945), pp. 32 ff.

sume responsibility" in taxing net income? Should anyone be entirely exempt from the income tax? Is the person with a small income able to pay at the same rate as a person with a large income? Is allowance to be made for dependents? How much? None of these issues are settled; they involve matters of public policy that go beyond the limits of taxation.²¹

ECONOMIC FACTORS

The ability concept leads directly to economic considerations. It is obvious that a high rate structure for large incomes may under certain conditions discourage thrift and capital formation, thereby either reducing productive capacity or retarding its expansion. Economic welfare in our economy precludes extremes in applying the ability theory. On the other hand, high rates of taxation upon small incomes (through property taxation, sales taxes, use taxes, excise taxes, and income taxes) may restrict markets for mass-production goods and services, thereby adversely affecting the economy. A tax system must be examined as it affects both production and consumption. Progressive rates for higher levels of income must be watched to see how they are affecting capital formation and production. Regressive rates upon small incomes must be examined as to how they affect consumption.²²

Income taxes cannot be considered apart from all other taxes that must be paid out of income. Definitions of net income, exemptions, and the rate structure all are relative to the tax system as a whole. State taxes cannot be considered apart from federal and local taxes. How is the total burden of taxation distributed among taxpayers?

The measurement of the actual burden of taxation upon different income groups is complicated by the factor of shifting.²³ The one who pays a tax may have been able to pass on all or part of the tax to others as part of the price he has charged for his goods and services. This is called shifting. The one who pays no direct tax to government actually may have paid a large percentage of his income for taxes as part of the price he paid for goods or services. Incidence is where a tax comes to

²¹ *Ibid.*, pp. 36 ff.

²² A. H. Hansen and H. S. Perloff, *State and Local Finance in the National Economy* (1944), ch. III.

²³ Groves, *op. cit.*, ch. VI.

rest—who finally pays it. The validity of all studies of total tax burdens depend upon the soundness of the assumption or findings regarding shifting and incidence.

SPECIFIC STATE TAXES

The tax systems of the various American states have evolved not by logic alone, but by a combination of principles, expediency, and necessity. The first concern probably has been fiscal necessity. The second force probably has been compromise among conflicting pressures and interests. However, these two have not precluded reforms embodying sound principles of taxation. Sometimes the principle has had political appeal; sometimes it has been introduced by experts in making proposals to meet emergencies or other fiscal difficulties. Tax organizations have done much to promote sound tax systems in various states. Tax studies and surveys in the various states also have promoted improvements.

MODEL TAX PLAN

The National Tax Association in 1918 proposed a model plan of state and local taxation and in 1933 prepared a revision of this plan. The plan called for a diversified revenue system made up of:

1. A personal income tax which shall be levied upon everyone at his place of residence, upon all income from all sources;
2. A tax upon tangible property levied where the property is located without regard to ownership or personal conditions;
3. A tax levied upon all business carried on in the jurisdiction levying the tax.

Although the principles enunciated in the report have had wide application since 1918, many states have departed from the recommendations for carrying them out.

Regarding the income tax the plan called for not exempting anyone wholly from the tax, not taxing nonresidents, and not taxing corporations under the personal income tax law. Small exemptions were to be allowed for dependents, rates were to be progressive (1 percent to 6 percent), and no one was to be wholly exempt from this direct tax. No tax offsets were to be allowed against the tax.

The proposed tax upon business was to be a single, uniform tax upon all business in lieu of the host of unsound, inequitable, variable taxes levied on various types of business. The tax was to be levied except in certain cases upon net income derived from carrying on business within the state levying the tax. A formula was proposed for allocating the tax upon certain businesses to the various states where the business was carried on. The rate was to be uniform (proportional), not progressive. The rate was to be moderate and applied equally to all businesses.²⁴

TWENTIETH CENTURY FUND

The Twentieth Century Fund Survey of Taxation in the United States and a Program for the Future (1937) made the following major recommendations:

1. *Income tax.* A unified income tax extended to include the smallest incomes was recommended. Capital gains under this tax would be taxed as income with allowance for capital losses. Rates might be increased in the middle brackets. States should increase state revenues through income taxation.
2. *Business taxes.* Replace progressive rates with moderate flat rates upon net income. States should experiment with special service charges upon business firms. Repeal discriminatory tax laws, such as the tax upon chain stores. Repeal tax provisions designed to promote particular business enterprises. Eliminate double taxation resulting from taxing the same income under both corporate and personal income tax laws.
3. *Consumption taxes.* High tax rates upon specific commodities to reduce consumption is not favored. The extension of taxes upon particular commodities or services is opposed as well as any increase in rates of such taxes. General sales taxes should be repealed, or at least be reduced. General sales taxes at low rates are preferred over taxes upon specific goods and services. Taxes upon gasoline and motor vehicles with rates at least as high as then existed are favored. Established taxes upon tobacco and alcoholic beverages are not condemned.
4. *Death and gift taxes.* It was held that the existing rates are too low except in the highest brackets and the exemptions too high. States should adopt gift taxes.²⁵

²⁴ National Tax Association, *Second Report of a Plan of a Model System of State and Local Taxation* (1933).

²⁵ Twentieth Century Fund, *Facing the Tax Problem* (1937), pp. 391 ff.

STATE PERSONAL INCOME TAXES

As states abandon state property taxes, the problem of fitting the income tax into the state tax system becomes simplified. There is no longer the problem of double taxation of income derived from property. The two major difficulties of taxing intangibles and property tax offsets against the income tax are being eliminated. Yet the problem remains as to what income the states are to tax. Some states such as Wisconsin tax only income earned within the state. Delaware is an illustration of a state that taxes all income of state residents no matter what the source. New York State taxes the income of nonresidents if the income is earned within the state, but credits a person with any income tax paid to the state in which he resides if the other state has a reciprocal provision. Such varying policies cause tax injustices. Such competition gives the federal government the advantage in the taxation of personal income. The high rates of federal income taxation in recent years has tended to force some states to rely more heavily upon other tax sources.

The income tax in spite of these drawbacks should be the foundation of a state tax structure. It is a direct tax; the taxpayer knows exactly how much of his income is going to support government. It is a tax which cannot be shifted to others. If properly administered, with small exemptions, it can produce a large volume of revenue. The cost of administration is not prohibitive. It automatically adjusts to changes in the economic status of the taxpayer; exemptions and rates can be adjusted to fiscal needs and economic conditions. It does not meet the test of stability very well, so it must be supplemented by other taxes with a more stable yield. It meets the principles of justice better than any other tax yet devised. It can be administered to suit the convenience of the taxpayer; some states provide for installment payments. There is no convincing evidence that the existing rate structure retards economic development in the states having the tax. It is easy to administer and compliance can be made easy through simplified returns, such as are now used in New York State. Evasion is possible as it is with most taxes, but strict enforcement and coöperation among taxing jurisdictions can insure a reasonable return from the tax.²⁶

²⁶ See Shultz, *op. cit.*, pp. 382 ff.

CONSUMPTION TAXES

Consumption taxes are an indirect method of taxing income—supposedly consumer income only. Theoretically those who spend the most pay the most to support government. Actually, all or part of the tax may be shifted from the consumer to the producer or the handler or the good or service taxed. This happens where the price must be reduced because of the tax. Under competitive conditions in a buyer's market the size of the market often is relative to the price. Where profit is determined by volume, price is a most important factor. In other cases, buyers are very sensitive to price. Even small increases in price meet sales resistance. Nevertheless, it is probably true that a large part of consumption taxes are borne by the ultimate consumer.²⁷

Consumption taxes in state tax systems are of two major general types: (1) general sales or use taxes levied upon all commodities and/or services with or without exemptions of certain necessities such as food, and (2) excises or taxes levied upon certain selected commodities and/or services. Where such a tax is applied to fees for services, such as those of professional men, it may be referred to as a gross receipts tax. Moreover, taxes upon gross income or "turnover" may be in effect taxes upon consumption under certain conditions. All taxes based upon receipts from the sale of goods and services and all taxes upon commodities or services as such, regardless of price, are referred to in this discussion as "consumption taxes." These may be further classified as to where the tax is collected—from the manufacturer or from the retailer.

States have entered upon programs of taxing specific commodities, especially during the past twenty-five years. Urgent need for revenues buttressed by the objective of social control and economic competition have brought about this trend. Alcoholic beverages and tobacco have been singled out for heavy taxation. Taxes upon admissions, nonalcoholic beverages, playing cards, luxury goods, and cosmetics are colored by both moral judgments and revenue considerations. The tax upon oleomargarine is an outstanding example of economic pressure at work. Taxes upon motor vehicles and gasoline probably have resulted from their possibilities as large revenue producers.²⁸

²⁷ See Lutz, *op. cit.*, pp. 566 ff.

²⁸ See Groves, *op. cit.*, chs. XIII-XIV.

Judged solely upon the basis of tax principles, most taxes upon specific commodities do not rate very highly. With the exception of motor vehicle, motor fuel, and alcoholic beverage taxes, the yield is not large for any one state commodity tax. However, taken together they account for a large part of state tax revenues. They also provide a relatively stable source of revenue; they are easy to collect; they can be administered cheaply with a few exceptions. On the other hand, they are extremely regressive and bear very little relationship to taxpaying ability. The poor have to make a greater sacrifice than the rich. They tend to limit consumption of the particular items taxed. They place an extra heavy tax burden upon certain industries which appear to be no more unessential than some that are not subject to special taxes. They often are superimposed upon federal excises upon the same things. They hide the burden of taxation and encourage liberal public spending.²⁹

General sales, or use, or gross receipts taxes as a source of state tax revenues have spread rapidly. They differ from taxes upon selected commodities in two major respects. Taxes upon specific commodities often are determined without regard to price. These general levies apply to sales of almost all commodities and/or services. The rate generally is a uniform percentage of sales prices, but rates sometimes vary for different types of business. The use tax is a supplement to a sales tax, designed to reach goods and services purchased out-of-state. It is levied upon the storage, use, or consumption of such items as are subject to the tax. The general sales or use tax is extended sometimes to include sales of real property, personal and professional services, sales of securities, and other business transactions. These taxes generally are called gross receipts or gross income taxes; they have the characteristics of income, business, and sales taxes and are difficult to classify.³⁰

Modern general sales taxes and their counterparts have proved to be producers of larger amounts of fairly stable revenues. The relatively low rate made possible by broad coverage simplifies the problem of administration; the cost of administering the tax is moderate.³¹ Rigorous enforcement of the law, however, is both difficult and expensive.

²⁹ See Groves, *op. cit.*, ch. XIII.

³⁰ *Ibid.*, pp. 316 ff.

³¹ *Ibid.*, p. 315.

The tax has a degree of flexibility as purchases increase or decrease with changes in income. Its most serious limitations relate to justice, economic considerations, and its diffusion. Where it applies to all goods and services consumed, it bears hardest upon the poor.³² To reduce this hardship somewhat some states exempt food; but it is debatable if food is the only essential involved. It leads to double taxation of the same goods and services where the tax applies to all sales of goods and services. Where it applies to gross earnings, wage and salaried classes get the tax both upon what they earn and what they buy. It affects different businesses in different ways depending upon price factors and shifting. It hides the cost of government and inequities in supporting government. Few realize how much they are paying for governmental services under comprehensive indirect taxes.

There can be little doubt that broad indirect taxes upon consumption sacrifice other tax principles to adequacy and stability in revenues. On the other hand, the general retail sales tax may be preferable to certain other taxes that have been widely accepted. Taxing personal property at low rates at the time of original sale is less regressive and probably has fewer undesirable economic consequences than taxing the same property every year under a property tax. Probably nothing is more essential than housing, yet regressive heavy property taxes are accepted by some who oppose general consumption taxes at low rates. The main advantage of these taxes over the sales tax is that they are direct. A general sales tax at low rates, moreover, may be preferable to specific commodity taxes—where social control and economic competition may be mixed with revenue considerations. Furthermore, the sales tax frequently reaches income that is not reported under the income tax, or not taxable under that tax. Finally, the regressive nature of the sales tax can be counteracted somewhat by its integration with an income tax at progressive rates determined in part by the burden of the sales tax upon various income brackets.³³

BUSINESS TAXES

Closely related to taxes upon consumption is the taxation of business. Taxes upon business are of many kinds—including taxes upon

³² Tax Institute, *Where the Sales Tax Falls* (1934), pp. 6-7.

³³ Lutz, *op. cit.*, pp. 641 ff.

corporation income, capital stock, or gross receipts, severance taxes, unincorporated business taxes, taxes upon public service corporations, bank taxes, taxes upon insurance companies, business licenses, incorporation fees, and many others. No state has a single tax upon all business; business taxation is characterized by heterogeneity and disparity in the treatment of various kinds of business. Like commodity taxes, economic pressures tend to enter into business taxation.³⁴

It is difficult to generalize about business taxation in the various states. Taxes based upon net income generally are limited to corporate business. Taxes upon gross receipts generally are limited to public service corporations, although taxes upon insurance companies and chain stores tend to take this form. There is no uniform policy in the definition of what business within a state is to be taxed, nor how the base for such taxation is to be computed. Proportional rates are most common, but progressive rates exist in some states. Discriminations through special taxes and rate variations are common. Many businesses are subject to more than one form of business tax.

Business taxes, like taxes upon consumption, find their chief justification in the revenue yield. Theoretically, it can be argued that government contributes much to production and business taxes can be supported under the benefit theory. Furthermore, taxes upon business are easier to administer than taxes upon persons; there are fewer units and bookkeeping is more advanced in business. The cost of administration is relatively low. Business taxes also enable states to reach a source of personal income that cannot be reached by any other means; owners of a business may live in another jurisdiction. Although business taxes levied upon an income base are unstable, taxes levied upon other bases such as capital stock are relatively stable.³⁵

The taxation of business, on the other hand, has serious limitations. It is hard to define "business." Although a uniform system of taxation applied to all business would be an improvement over existing conditions, all business is not alike economically and discrimination would not be eliminated. Existing taxes place some businesses in an extremely disadvantageous competitive position. The problems of shifting and

³⁴ See Tax Institute, *How Shall Business Be Taxed?* (1937).

³⁵ See Groves, *op. cit.*, chs. XI-XII.

incidence are most complicated. Some business taxes increase the regressive features of consumption taxes. Others tax the same income more than once. Constant appraisal and improvement of business taxation is a major problem in practically all states.³⁶

LIMITATIONS OF STATE TAXATION FOR SCHOOL SUPPORT

Even if every state had the same, sound tax system, efficient tax administration and collection, and a uniform rate structure, not all states could support an acceptable minimum of public education and other essential government services. States vary widely in natural resources, industrial development, and annual income from which taxes must be paid. Price differentials are relatively small compared with differences in economic resources.³⁷

FISCAL RELATIONS

The decentralized structure of American government; the expansion of government on all levels; the utilizing of the same revenue sources by the federal and state governments with municipalities beginning to use some of the same taxes; and the existence of forty-eight different tax structures in a single national economy create serious tax conflicts, economic hardships, and fiscal difficulties. The problem of federal-state relationships in taxation will be treated in the next chapter. Interstate and state and local conflicts will be discussed here.

The interstate problem arises in part from jurisdictional conflicts among states; in part from states seeking competitive advantages; in part from the migration of industry; and in part from the wide variety of tax provisions arising from such factors as constitutional provisions, traditions, and varying conditions. Multiple taxation is a serious problem of businesses engaged in interstate commerce. Reform of state tax structures is sacrificed to granting lenient treatment to industries that can easily migrate or to retaining competitive advantage for established industries or businesses. Pressures of this type also operate to retard interstate uniformity in tax provision.³⁸

State taxes create a number of jurisdictional problems. Under state

³⁶ See Hansen and Perloff, *op. cit.*, pp. 42 ff.

³⁷ See ch. III.

³⁸ See Hansen and Perloff, *op. cit.*, pp. 42 ff.

income tax laws place of residence or source of income creates a jurisdictional problem. A state with a sales tax cannot tax sales to out-of-state customers. States with sales taxes have enacted use taxes to discourage out-of-state purchases. In business taxes, the apportionment of business as between intrastate and interstate becomes a serious problem. Moreover, a state through business taxation indirectly can tax income earned in other states. Corporations try to evade state laws by shifts of income to subsidiaries in other states.

The main effect of interstate competition is to keep states from adopting specific taxes and to keep the rates of state taxes down. Connecticut and New Jersey have not adopted income taxes in part because they are in competition with New York for suburban residents from New York City. Many states avoid taxes on business to attract industries from other states. Fear of migration to other states tends to keep income and business tax rates down. Even sales and consumption taxes are affected by interstate competition for business.³⁹

Another tendency in state taxation is to adopt taxes that can be shifted to residents in other states. Although states are prohibited from taxing goods in interstate commerce, many state taxes indirectly enter into the cost of such goods. Thus mining states can shift severance and other taxes; financial centers can shift taxes on insurance companies, banks and exchanges and manufacturing centers can shift taxes on business. Delaware, e.g., has corporation laws that attract business from all parts of the country; low tax rates on thousands of corporations doing business in all states contribute a large part of its state tax revenues.

The problem of state and local relationships becomes more serious as municipalities adopt local tax sources other than the property tax. Tax sharing, state aids, transfers of functions, separation of tax sources, and consolidation of local government already have been discussed. However, tax coördination between states and municipalities will become serious as more municipalities adopt income, sales, and business taxes. Migration of industry and business within states may become as serious as it is among states. States may be forced to collect these taxes

³⁹ See Clarence Heer, *Federal Aid and the Tax Problem* (1939), pp. 47 ff., and Tax Institute, *Tax Relations Among Governmental Units* (1938).

adding the local rate to the state rate or returning all or part of a tax to localities in the form of shared taxes or grants-in-aid.⁴⁰

ECONOMIC CONTROL

Federal tax or fiscal policy affecting the whole economy can be managed more easily than forty-eight separate state tax programs in order to foster economic objectives. States also are limited in their choice of taxes because of constitutional restrictions, federal tax policy, and interstate competition. They are more limited in their choice between deficit spending and taxation. The inflexibility of state tax systems is increased by the giving to local government of new local taxing powers, shared taxes, or grants-in-aid for specific functions.⁴¹

State tax systems have been described as fiscally perverse during inflation or deflation. It is asserted that they reduce tax rates and maintain high levels of public spending during inflation and thereby contribute to it; and that they impose additional consumer taxes and reduce expenditures during deflation and thereby make it worse. It is argued that state tax rates should be kept high during inflation to drain off purchasing power and that consumer taxes should be reduced during deflation to increase consumer purchasing power.⁴²

The perversity of state tax systems probably is not as great as the foregoing paragraph would imply. Taxes that are transferred from one group of consumers to another through government spending have little effect upon total consumer spending. Thus high consumer tax rates during inflation may not reduce inflation; and high consumer taxes during deflation may not reduce total consumer spending. Such transfers may not be direct—a large part of government spending for capital improvements finds its way into consumer spending through direct labor costs and indirect labor costs for materials used. The same is true of debt repayments to the extent that the funds are used for new investments. About the only way state taxes can be used to retard inflation is to create reserves. Spending these reserves during deflation would increase purchasing power.

⁴⁰ See ch. VII.

⁴¹ Heer, *op. cit.*, ch. VI; E. D. Allen and O. H. Brownlee, *Economics of Public Finance* (1947), chs. XI and XIII.

⁴² Hansen and Perloff, *op. cit.*, ch. IV.

INTERSTATE COÖPERATION

There are many forces working toward tax coördination among states. Voluntary associations such as the National Tax Association and the Tax Institute have been promoting uniformity in state tax provisions. Reciprocal tax provisions are making some headway. Co-operation among state officials through conferences, committees, and organizations may bring about results. In 1933 an Interstate Commission on Conflicting Taxation was created by officials representing thirty-one states; in 1935 a Tax Revision Council was appointed by representatives of forty-one states. Interstate compacts may be a means of securing coördination. Congressional action or administrative guidance by federal officials may be necessary in some instances. The U. S. Treasury recently sponsored a study of intergovernmental relations.⁴³

TAX ADMINISTRATION

The state agencies responsible for administering tax laws frequently are not given the authority, professional personnel, freedom from political control, or financial resources required to administer and improve the administration of state tax laws. A tax agency administered by one man responsible to the Governor with all bureaus administering tax laws under his direction with civil service appointments is generally recommended. In large states district offices may be required. Exchange of data among states and with federal authorities is extremely desirable. Research personnel to study both the tax system and its administration is necessary for continuous improvement.⁴⁴

SUMMARY

Modern state tax systems were developed during the past three decades. States have moved ahead of local government in amount of taxes collected annually. Increased state school support has followed the development. Where states have not developed modern tax systems, school support on the state level tends to lag. The substitution of gen-

⁴³ See *Tax Relations Among Governmental Units*, *op. cit.*; Tax Institute, *Tax Barriers to Trade* (1941); and Allen and Brownlee, *op. cit.*, ch. XIV.

⁴⁴ See Groves, *op. cit.*, pp. 601 ff; and H. M. Groves, *Viewpoints on Public Finance* (1947), ch. IX.

eral fund school appropriations for earmarked school taxes has made schools dependent upon the entire state tax system. Less than a fourth of the states provide over half of their state school revenues from earmarked sources.

State tax systems rely heavily upon consumer taxes, the general sales tax being the largest revenue producer. However, there are wide variations among states in their reliance upon specific taxes. Generally, the states with the least taxpaying ability make the greatest use of taxes upon consumption. Expediency, fiscal necessity, economic interests, and interstate competition have helped shape state tax policies. However, tax systems should be appraised and modified in terms of sound criteria with emphasis upon economic soundness. A balance should be achieved between income taxes and taxes upon consumption.

The policy of earmarking specific taxes for specific purposes is difficult to defend on "the benefit theory." It is not sound fiscal administration. The present heterogeneous state taxes upon business should give way to a rational tax upon business. Interstate and state-local competition and conflicts in taxation must be reduced and eliminated if possible. Yet, if every state had a sound and uniform tax system with a uniform rate structure, some states would find themselves unable to provide an acceptable minimum program of education and at the same time support other essential governmental services.

READINGS

Allen and Brownlee (1), chs. XXIII–XXIV; Ashby (4); Chisholm (19); Edwards (54); Groves (75), chs. II, XIX, and XXI; Groves (76), chs. I, IX, and XIII; Hansen and Perloff (77), chs. III, VII, and XII; Lutz (97), chs. XV–XIX; Morrison (107), ch. X; Mort (111), Supplement I; Mort and Reusser (118), ch. XXIII; National Education Association (130); Newcomer (137); Norton (140); Norton and Burke (141); Norton and Norton (143); Shultz (158), chs. XIV and XXX; Studenski (168); Swift (171), chs. VIII–IX.

CHAPTER IX

Federal Taxation and School Support

Federal taxation since 1917 has provided a relatively small part of public school revenues. Yet the federal tax system is best able to reach the productive capacity of the nation and the federal level has many other tax advantages not possessed by the states. In the absence of substantial federal assistance for schools, the growth of the federal tax structure, and the particular taxes in that structure, have had serious implications for the state and local financing of public education. Although federal assistance to states for all purposes has tempered the impact of heavy federal taxes upon state and local public school revenues, the fiscally weak states have not always been aided most under existing federal aids. Even if federal tax support for schools increased in the future, federal and state tax coördination must be achieved. The whole federal tax structure must be integrated into a sound tax program for all levels of government.

FEDERAL TAXING ADVANTAGES

ECONOMIC BASE

The economy of the United States is characterized by a high degree of specialization and concentration, regional inequalities, extensive territorial scope of activity with state boundaries presenting few barriers to commerce, and a highly integrated communication and transportation system. It is largely a national economy in which widely scattered regions contribute to local production and in which all states

provide the market for local products. Interstate commerce keeps our highly specialized production and distribution system in operation.

The federal tax system can reach the productive capacity of the nation out of which taxes must come. States are prohibited from taxing interstate or foreign commerce. A state taxing firms engaged in interstate commerce can tax only that part of the business carried on within the state. Interstate competition and migration either prevent states from taxing movable sources or keep state taxes on such sources at levels which do not produce an appreciable revenue. Some state taxes on business or consumption interfere indirectly with interstate commerce. The uneven distribution of economic resources means that some state tax systems cannot meet their revenue needs. The federal government, on the other hand, is not so restricted by constitutional limitations. Since it reaches all business, the factor of competition is eliminated or diminished. The federal tax system meets the test of fiscal adequacy.¹

ECONOMIC POLICY

The federal tax system can be easily manipulated to promote economic objectives. It can be managed not only to produce adequate revenue, but also to control their economic effects, because the federal government has a wider choice of taxes than the states. The only limits on its power to tax are the provisions that it cannot tax exports or levy unapportioned property taxes. Its jurisdiction extends over the entire economy so it can utilize progressive income tax rates to their economic limits. It can levy business and consumption taxes. It can shift its emphasis from the income tax to consumer taxes as economic conditions warrant. Finally, it can resort to borrowing in the face of extreme deflation.²

TAX JUSTICE

The federal government relies more heavily upon income taxation than do the states. It is in a better position to collect and enforce the

¹ See Tax Institute, *Tax Relations Among Governmental Units* (1938), Part One; and E. D. Allen and O. H. Brownlee, *Economics of Public Finance* (1947), ch. IX and Part Two.

² Clarence Heer, *Federal Aid and the Tax Problem* (1939).

tax. Hence, it conforms to the equity or ability concept of taxation to a greater extent than the states that rely so heavily upon consumption taxes.

TAXPAYER CONVENIENCE

Firms engaged in interstate commerce must conform to hundreds of federal, state, and local tax provisions. They must file numerous returns with federal, state, and local agencies. Other individuals and firms have to comply with federal, state, and local tax laws and regulations applying to the same sources. As taxes increase in number and complexity, not only is the taxpayer inconvenienced but the cost of compliance to the taxpayer goes up. Businesses engaged in interstate commerce often must keep separate accounts for purposes of state taxation. One firm engaged in interstate commerce in 1937 had to file 44,610 returns at a cost of \$21,100 to the firm. The collection of many taxes through a single federal taxing agency would reduce inconvenience and cost to the taxpayer.³

COST OF COLLECTION

The federal government can collect certain consumption taxes at source with a minimum of cost. In other cases it can choose centralized or decentralized methods regardless of state lines, whichever is the cheaper of the two. States seldom can levy taxes on the manufacturer and must deal with wholesale or retail outlets. Federal and state collection of income taxes means considerable duplication of collection costs.

Dealing with the economy as a whole, the collection and enforcement of federal taxes is greatly simplified. In collecting a tax on oil or gasoline the federal government has to deal with only about 500 refineries in a limited number of states. Each of the forty-eight states has to reach thousands of wholesale or retail outlets. The federal government can collect and enforce a cigarette tax or a liquor tax in a few states. Federal corporation, business, or income taxes cannot be avoided by migration.

³ Tax Institute, *Tax Relations Among Governmental Units*, p. 4.

GROWTH OF THE FEDERAL TAX SYSTEM

NINETEENTH-CENTURY STATUS

Before the Civil War the federal government depended upon customs duties for most of its revenues. Excise taxes were levied during critical periods, but they never equaled customs duties in importance. The strain of the Civil War caused the nation to seek new sources of revenues. It levied an income tax, an inheritance tax, liquor tax, a general sales tax, various business taxes, an occupation tax, and a variety of excises or taxes on specific commodities. It even tried to levy a property tax in 1861. During the War the new taxes replaced customs as the major source of federal revenues. After the War most of the taxes were repealed and customs duties regained their importance.⁴

Following the Civil War there were periods during which the federal government had grave financial difficulties. Excise taxes slowly gained on customs duties. In 1894 an income tax was enacted but was declared unconstitutional. The Spanish-American War forced the use of stamp taxes, occupation taxes, special sales taxes, and an inheritance tax. These, too, were repealed in 1902.

Generally throughout the nineteenth century there was little overlapping between federal and state taxes. The federal level depended largely on customs and excises; the states, on the general property tax.

TWENTIETH-CENTURY TRENDS

The growth of the federal tax system really began with the corporation excise tax in 1909. This tax of 1 percent upon corporation income was followed by a personal income tax in 1913 and an estate tax in 1916. Between 1910 and 1920 customs duties fell from the major source of federal tax revenues to a very minor source (53.5 percent to 5.6 percent). Excises provided 42.8 percent of national taxes in 1910, but only 7.6 percent in 1920. By 1917 federal taxes passed the billion-dollar level, reaching over five billion in 1920. Whereas federal tax collections had been less than local collections until 1917, from 1918 to 1922 they were higher. The peak occurred in 1920

⁴ See W. J. Shultz, *American Public Finance* (1938), pp. 301 ff.

when federal collections were double local taxes, partly as a result of excess profits taxes, higher rates, and many other special war levies.⁵

Between 1924 and 1936 local government again regained its place as the major taxing unit in the United States. This resulted from the repeal of many of the federal wartime taxes. Rates were lowered on income and estate taxes. Prohibition cut off the liquor taxes. Depression reduced the yield of the income taxes. On the other hand, from 1924 to 1930 local taxes increased about 40 percent and during the depression they never were reduced to 1924 levels.

TABLE 10. Federal Tax Collections, 1890 to 1949

Year	Amount in Millions	Percent of Total Taxes in U. S.	Ratio of Federal to State Taxes	Ratio of Federal to Local Taxes
1890	\$ 374 ^a	42.7%	3.90	.92
1903	521 ^a	37.7	3.36	.74
1913	668 ^a	30.5	2.23	.55
1920	5,689 ^b	62.1	8.94	2.00
1925	2,974 ^b	37.7	2.69	.78
1930	3,479 ^b	33.9	1.95	.69
1935	3,551 ^b	36.5	1.88	.83
1940	4,910 ^b	38.0	1.48	1.05
1945	40,952 ^b	81.9	7.47	8.53 ^c
1948	37,582 ^b	73.0 ^c	4.78	5.83 ^c
1949	36,000 ^d	71.0 ^c	4.34 ^d	5.40 ^c

^a Shultz, *op. cit.*, p. 294.

^b *The Economic Almanac*, 1949, p. 137.

^c Estimated.

^d Preliminary.

By 1935, business recovery, new taxes, and higher rates brought federal taxes back to the 1930 level. By 1936 they nearly equaled local taxes and since then they have exceeded local taxes. Since 1936 the federal government has been the dominant taxing unit in the United States.

Federal taxes always have exceeded state taxes, but state taxes were gaining on the federal until World War II. New commodity taxes, lowered exemptions and higher rates of income tax, and other war taxes brought federal tax collections to over \$40 billion a year by 1944. Over 80 percent of all taxes were being collected by the federal

⁵ See Table 10.

unit in 1945. Federal taxes were seven times state taxes and eight times local taxes in that year. In 1949 federal taxes exceeded \$36 billion or over two times the total state and local taxes in that year.⁶ Moreover, states had invaded the federal tax domain and the national government was taxing the same sources as the states. Federal-state tax conflicts were increasing.

POSSIBILITY OF CHANGE

It is probable that the national government will continue to be the major unit for taxation. Tax institutions follow economic institutions and our economy has become a national economy with a high degree of centralization and concentration. The national government in other nations, with few exceptions, is the dominant taxing power. International tensions, the large federal debt, and the demands for internal security will tend to keep federal spending at a high level. Estimates of postwar national expenditures range from \$15 billion to over \$25 billion.⁷

STATE AND LOCAL EFFECTS

As long as the federal government continues to absorb a substantial portion of the national income through taxation, state and local resistance to increased taxation can be expected. During the present inflationary period this burden has retarded increased state revenues for schools to meet higher price levels. Along with rent ceilings it has increased the rigidity of the local property tax as a source of revenues for schools.

The incidence of heavy federal taxes is worst in the states with the least fiscal capacity to support schools. Between 1928 and 1937 it was found that the percent of total federal tax collections collected in the states least able to support schools under the Model Tax Plan increased. The amount of such collections increased while the state and local revenues for schools remained at low levels in these states. The reverse was generally true in the states most able to support schools. In the absence of increased federal tax assistance for public

⁶ *Ibid.*

⁷ See H. L. Lutz, *A Tax Program for a Solvent America* (1945); and Committee for Economic Development, *Taxes and the Budget* (1947).

schools, the weakest state taxing units have been made weaker by federal taxation.⁸

MAJOR FEDERAL TAXES

TYPES OF TAXES

Before the war (1936 to 1941) about 50 percent of federal tax revenues came from the individual income, payroll, or corporation levies. Excises on liquor, tobacco, and other manufactured articles provided about 30 percent. Estate and gift taxes accounted for another tenth. Customs duties amounted to less than 10 percent. Miscellaneous taxes contributed the remainder.⁹

By 1948 the income, payroll, and corporation taxes were producing over \$33 billion or over 75 percent of the federal total. Although federal excises or taxes on liquor, tobacco, gasoline, utilities, motor vehicles, admissions, and other manufactured articles almost equaled, or exceeded, total state or local tax collections, the more than \$5 billion from these sources accounted for only about 14 percent of federal tax collections in 1948. Customs amounted to less than 1 percent and estate and gift taxes to about 2 percent. Another 5 percent came from miscellaneous tax sources.¹⁰

INDIVIDUAL INCOME TAX

The taxation of individual incomes yielded nearly 50 percent of total federal tax revenues (1948). The importance of this source has been increased by (1) drastically reducing personal exemptions, (2) increasing normal and surtax rates, (3) lowering the incomes to which maximum surtax rates apply, (4) collecting the tax at source through payroll deductions, and (5) the tremendous increase in the national income. Between 1929 and 1936 the personal exemption for a married person with no dependents was reduced from \$3500 to \$1000. The lowest amount to which surtax rates applied was reduced from \$10,000 to \$2,000. The amount to which maximum surtax rates

⁸ L. L. Chisholm, *The Shifting of Federal Taxes and Its Implications for Public Schools* (1939), pp. 71-77.

⁹ *The Economic Almanac*, 1945-1946, pp. 109-110.

¹⁰ See Table 11.

applied was reduced from \$5,000,000 (1936) to \$200,000. The minimum surtax rate was raised from 1 percent in 1929 to 20 percent in 1944. The maximum surtax rate was increased from 20 percent to 90 percent.¹¹ Although there have been some reductions in rates and increases in exemptions or deductions since then, collections have remained high.

CORPORATION LEVIES

The corporation tax yield in 1945 was over a third of total federal tax collections. Much of the increase was from excess profits taxes enacted during the war. A small part came from a capital-stock tax enacted in 1933. The rest resulted from increasing rates and higher corporation incomes.¹² After the war the rates were reduced; these taxes now account for between 20 and 25 percent of federal collections.

CONSUMPTION LEVIES

During the war a number of new consumption taxes were enacted upon jewelry, furs, luggage, toilet preparations, oil pipelines, and transportation. Increased rates and/or increased volume of business

TABLE 11. Federal Tax System, 1940-1948^a

Tax	Collections (in millions)	
	1940	1948
Alcoholic beverages	\$ 624	\$ 2,255
Customs	350	422
Estate and gift	360	899
Income—individual	982	20,998
Income—corporation	1,121	9,852
Payroll	883	2,526
Manufacturers' excises	447	2,119
Tobacco	608	1,300
Other	328	2,052
Total	\$5,703	\$42,423

^a *Tax Systems* (10th ed.), p. 271, and *The Economic Almanac*, 1949, pp. 140-141. The totals differ from those in Table 7 largely because payroll taxes are included here and refunds are not deducted.

¹¹ *The Economic Almanac*, 1945-1946, pp. 118-119.

¹² *Ibid.*, pp. 114-116.

brought about increases in the returns from liquor, tobacco, gasoline and oil, sugar, coal, motor vehicles, playing cards, telephone and telegraph, electricity and other items of consumption.

COMPETITION WITH THE STATES

The federal government gradually has usurped the major tax sources upon which states have depended for support. The only major exception is the general sales tax. Because of ease of migration, state individual income taxes generally have been levied at moderate rates, leaving the higher levels of income to the federal government. With the reduction of personal exemptions and the large increase in minimum rates under the federal income tax, states have been reluctant to utilize the tax. Some have reduced their income taxes. Some have repealed them. The number of states adopting state income taxes has ceased to grow. The higher corporation levies have increased interstate conflicts in this area and the threat of migration undermines state business tax laws. The increase in the number of consumption taxes and higher rates not only have increased opposition to state commodity taxes, but adversely affect state general sales taxes. Such conflicts handicap public schools in finding new or increased revenues from state sources.

FEDERAL TAXES FOR STATE ASSISTANCE

The full effect of federal taxation upon state and local public school revenues since 1936 has been tempered by federal assistance to the states. To the extent that such assistance has relieved the total burden of state and local taxes it has indirectly aided states and localities in supporting schools. Although federal assistance to states has helped schools indirectly, it has not given enough help to the fiscally weak states.

BACKGROUND

The policy of annual federal grants-in-aid to states has been in existence for over half a century. It began with the Hatch Act in 1887 which made annual allowances for agricultural experiment stations. Three years later, annual appropriations were made for aiding land-

grant colleges. In 1911 aid was provided for forest-fire protection; and in 1914 for agricultural extension work. In 1916 aids were extended to states for roads and the National Guard. Aid for rehabilitation of the disabled (1920), infant and maternity hygiene (1921), and increased highway assistance (1921) brought total federal assistance up to an average of about \$150 million a year between 1922 and 1932.¹³

The recovery and relief program raised federal assistance to the states up to \$2 billion by 1935—equal to nearly 60 percent of total state tax collections for that year. Much of this assistance was for relief, but other types of aid were increased. Aid was also extended for unemployment service, public health, care of the aged, dependent children, and the blind, and the administration of unemployment compensation systems.¹⁴

CURRENT STATUS

Total federal aids for agricultural experiment stations, agricultural extension, forest protection, aid to dependent children, aid to the blind, land-grant colleges, vocational education, venereal disease control, old-age assistance, public health, administration of unemployment compensation, rehabilitation, grade crossings, highways, wildlife, child welfare, crippled children, maternal and child health, public housing agencies, disabled servicemen, and shared revenues, amounted to nearly \$665,000,000 in 1946–1947. If certain emergency grants and other federal expenditures within states are included, such as agricultural adjustments, school lunches, extension and security, highways, national guard, training nurses, access roads, and vocational education, the total is raised to \$1,290,000,000. This is equal to nearly 20 percent of total state tax collections in 1947.¹⁵

EFFECTS

Some of the states with the lowest fiscal capacity to pay taxes receive above average assistance from the federal government, but they are not the states that benefit most. In Mississippi, Arkansas, and

¹³ Shultz, *op. cit.*, pp. 702–703.

¹⁴ H. M. Groves, *Financing Government* (1945), pp. 522–524.

¹⁵ Council of State Governments, *Grants-in-Aid and Other Federal Expenditures Within States* (1947), pp. 16–17 and pp. 22–23.

Georgia the assistance (1944) amounted to over 50 percent of state tax collections. In Alabama, South Carolina, Kentucky, New Mexico, and Tennessee it exceeded 40 percent. In North Carolina and Louisiana it did not reach 40 percent. Yet, in five of the more able states, federal assistance exceeded state tax collections—Idaho, Montana, Nebraska, North Dakota, and South Dakota. It almost equaled state taxes in Iowa, Kansas, Nevada, and Wyoming. Existing federal aids do not give most relief from the incidence of federal taxes in the states that need relief most.¹⁶

FEDERAL REVENUES FOR SCHOOLS

The development of annual federal appropriations for public schools was summarized in Chapter V. In 1948 the amount provided for vocational education was \$25 million; emergency school appropriations were \$60 million; or a total equal to about 2 percent of total school revenues. The \$300 million proposed in 1949 would provide only about 7 percent of public school revenues.¹⁷

In addition to appropriations, certain states receive percentage grants from certain receipts of the federal government, part of which may be used for public school support. (1) States with federal forest reserves receive 10 percent of monies received annually from timber and grazing rights. These funds must be used for public schools or highways in the counties containing the reserves. In 1945 forty states received a total of \$4,003,031 from this source. Mississippi, Oregon, and Washington were the only states getting over \$500,000. (2) States containing federal mineral lands or deposits receive 37.5 percent of the annual receipts from bonuses, royalties, and rentals from such lands. These funds also must be used for public schools or roads. In 1945 twenty-one states obtained \$3,770,383 from this source. California received \$1,186,449 and New Mexico \$624,786. (3) States containing federal grazing lands are paid 50 percent of the receipts from the lands. The funds are to be used for the benefit of the county or counties in which the lands are located. Ten states received \$382,585

¹⁶ *Ibid.* (1945), plus data on tax yields from *Book of the States, 1945-46*, pp. 186-187.

¹⁷ U. S. Office of Education, *Federal Government Funds for Education, 1947-48* (Leaflet No. 79, 1948).

from these receipts in 1945. (4) Proceeds of public land sales have been shared with the states, but the number of states involved and the volume of sales are now very small. These were used for roads or schools. It is not known how much of the approximately \$8,000,000 from the four sources was used for schools in 1945.¹⁸

Some of public school funds received from federal sources may be credited to state assistance,¹⁹ but there is no evidence that in the past the states least able to support schools always received the greatest assistance. In 1946 the reported percentage of total public school revenues from federal sources ranged from 0.4 in Massachusetts and New York to 11.3 in Wyoming. New Mexico, which ranks among the states with the least fiscal ability, obtained 0.9 percent while Nevada which ranks among the most able received 3.6 percent from federal sources. Alabama (3.7), Arkansas (3.1), Georgia (6.3), Kentucky (4.0), Louisiana (5.9), and Mississippi (2.9) received percentages at least double the United States average of 1.3, but South Carolina had only 1.2 percent; Tennessee 1.3 percent; and West Virginia only 0.7 percent. Nevada (3.6), Utah (2.8), Washington (4.5), and Wyoming (11.3) among the abler states did better than some of the least able states.²⁰

When total emergency school funds to states are included, most of the states with the least fiscal capacity have received substantially more federal assistance. The amount of total school revenues received from all federal sources approximate 10 percent in 1946 in Alabama, Arkansas, Georgia, Mississippi, South Carolina, and Tennessee. On the other hand, Kentucky, Louisiana, New Mexico, and North Carolina received above the national average.²¹

FEDERAL AND STATE TAX COÖRDINATION

The potency of the federal government in taxation, the magnitude of federal tax collections, the exploitation of particular overlapping

¹⁸ *Ibid.*, for 1945-1946.

¹⁹ See ch. V.

²⁰ *Statistics of State School Systems, 1945-1946*, p. 64.

²¹ Estimates based upon footnote 17 and estimated public school revenues for 1945-46.

taxes by the federal unit, and the tax immunity of federal instrumentalities hamper the states. When states imposed liquor and tobacco taxes they invaded a traditional source of federal revenues. State income taxes decrease the yield of the federal tax because the amounts paid to the states are deductible. Community property laws in certain states decreased federal revenues and put other states at a tax disadvantage until 1948. State retail sales taxes not only limit federal excise taxes but also are deductible from the federal income tax. State tax exempt bonds affect federal revenues. State policies also affect federal undistributed profits, stock and bond transfer, and inheritance and gift taxes. Both federal and state taxes come out of the same economic resources and what one does affects the other and the public schools.²²

FEDERAL AND STATE IMMUNITY

The immunity of federal instrumentalities from state taxation and state instrumentalities from federal taxation is based upon Supreme Court decisions. With the expansion of federal activities within states and the growth of state governments, reciprocal immunity from discriminatory taxation has become a serious tax problem. The doctrine has been so interpreted as to help the federal government more than the states. What are exceptions for the federal unit are often not exceptions for the state unit. There has been some relaxation of the interpretation in the case of taxing incomes of government employees, but confusion still exists in even this area. Immunities should be abolished to the extent that federal and state governments should be subject to the general tax laws applying to others. Until they are, payments in lieu of taxes should be adopted as a general policy. With state taxation for schools increasing, public schools have a greater stake in a rational policy of immunity.²³

²² See Joint Committee of the American Bar Association, the National Tax Association, and the National Association of Tax Administrators, *The Coordination of Federal, State, and Local Taxation* (1947); U. S. Treasury Department, Division of Tax Research, *Federal-State Tax Coordination* (1947); and *Tax Relations Among Governmental Units*, *op. cit.*, ch. II.

²³ See Groves, *op. cit.*, pp. 420-426; and Tax Institute, *Tax Relations Among Governmental Units*, ch. IV.

COÖRDINATION DEVICES

Many proposals have been advanced for federal-state tax coördination: (1) transfers of functions, (2) federal grants-in-aid, (3) federally collected-state shared taxes, (4) federally collected state taxes, (5) joint administration of certain taxes, (6) separation of tax sources, (7) deductions, (8) crediting, (9) joint research and planning relative to fiscal policy, and (10) exchange of information.

These have been listed according to the approximate degree of federal centralization involved in each. In choosing centralization versus decentralization, attention must also be given to such factors as (1) criteria of a sound tax system, such as revenue adequacy and administrative efficiency; (2) removal of the limitations of state tax systems, particularly fiscal incapacity and interstate competition; (3) the prudential spending of revenues; (4) the practicability of the proposal; and (5) the maintenance of minimum levels of services essential to the national welfare, such as public health, public education, and other basic social welfare provisions.

TRANSFERS

With the twentieth-century expansion of federal and state governments there have developed overlapping services in such functions as agriculture, labor, commerce, police protection, conservation, highways, public health, social welfare services, and research. Although state and local units still carry the major burden of most of the services, the federal government has the major taxing potential.

Outright transfer of certain functions from the states to the federal level would eliminate the necessity for state and local tax support of such functions. It would capitalize upon the advantages of the federal taxing system and cut down the limitations of state tax systems. The prudential spending of such funds would be facilitated because the federal government could choose centralized or decentralized regional administration. Uniform service standards could be maintained throughout the nation.

Much of the lag in making transfers is due to tradition, psycho-

logical blocks, vested interests, and blanket fear of centralization. In private business we have accepted a high degree of desirable and necessary centralization in communication and transport services. Yet we hesitate to transfer the highway function to a central agency. At one time agricultural, conservation, and commercial services were largely federal, but states duplicated these instead of seeking expansion of the federal services.

Transfer of functions indeed may be the best single device for preserving decentralized government. By transferring certain functions like highways to central agencies, state and local taxing power is released for the support of functions vital to self-determination and individual welfare such as health, education, safety, housing, protection, sanitation, and utilities. Although other communities and states are concerned with the maintenance of minimum service levels everywhere for such functions, there is no self-government unless localities and states can exceed uniform standards if they so desire. Self-government to go beyond certain minima, to make local adaptations in services, and to provide new or different services is the vital issue. Without tax leeway, self-government often means self-imposed poverty and stagnation in government.

GRANTS-IN-AID

Grants-in-aid of necessity involve centralization to the extent that the central government must choose the specific state or locally administered functions to be aided or the minimum service levels to be maintained through grants. Otherwise, the grants-in-aid have the advantages of tax centralization without disturbing existing functional allocations as between levels of government. It would be possible, of course, to provide a grant which might be used to aid all functions of state or local government, but national interests probably would preclude such a policy. The nation as a whole is not equally concerned with all functions of government. The patterns of state and local government vary considerably, and the prudential spending of the funds would not be assured. The United States for over a half a century has pursued the policy of making grants for specific purposes

with varying degrees of control over the services to be provided within the states. It probably will continue this policy.²⁴

The grants-in-aid policy enable states to maintain minimum standards of service for the particular functions aided, with tax relief to the extent of the grant. Where the grants are inversely proportional to fiscal capacity, the burden of federal taxation upon state and local tax resources is more equitably distributed. Part of the burden of supporting services tinged with national interest is spread over the entire economy. The limitations of state and local taxation are reduced. The prudent spending of the funds is controlled to a greater degree than it is under other devices. States and localities are free to exceed national minima depending upon their fiscal capacity and the total federal tax burden.

There are two objections to providing state tax relief through aiding isolated functions of government. (1) If any states would have to use all of the federal funds to attain national minimum levels, there would be no immediate tax relief, only relief from further increases in state and local taxation. (2) If the service requirements of two functions have an inverse relationship, e.g., old-age assistance and education where large need for one may mean reduced need for the other, then aiding only one may impose a heavier burden on states with heavy requirements for the other. Its financial resources to meet its heaviest requirement are limited by federal taxes to help finance the heavy requirements for the other in certain states. However, the same criticism can be raised against federal taxes for federal purposes. With many functions there is little national interest in the maintenance of minimum service levels.²⁵

The major difficulties with grants-in-aid for a specific function are in the choice of the minimum service level to be aided, the measurement of its costs, the measurement of fiscal capacity, the prudential spending of the funds, and the issues of control that arise. Research during the past twenty years, in relation to grants for public school support have made them administratively practicable, but future refine-

²⁴ See Heer, *op. cit.*, p. 14 and A. H. Hansen and H. S. Perloff, *State and Local Finance in the National Economy* (1944), ch. VIII.

²⁵ *Ibid.*, pp. 17-18.

ments will be both necessary and possible. The Committee on Intergovernmental Fiscal Relations of the Treasury Department (1943) recommended the extension of the grant-in-aid policy for public schools and relief. Tax experts have made similar recommendations.²⁶ Issues of control have delayed the adoption of increased federal grants-in-aid for schools. In the final analysis the only control that need accompany the federal grant is that of audit to see that the funds are spent honestly for the purposes intended. Any other controls are not inherent in the grant-in-aid policy and are subject to state and local restraint under our representative form of government.²⁷

FEDERAL COLLECTION WITH STATE SHARING

The United States government does not use centrally collected, shared taxes as have Argentina and Germany and most states within the union. Its revenue sharing has been limited to certain minor sources such as receipts from federal land sales or leases. It has been proposed that the states surrender certain taxes, such as those on incomes, business, liquor, gasoline, or cigarettes, and that the federal government share the yield of these taxes at fixed rates on the basis of population, amount of collections, or other indices. The proposal has the advantages of simplicity, unified administration and collection, separation of revenue sources, and no federal interference with state freedom.²⁸

The limitations of and objections to the proposal are many. It would not assure the maintenance of minimum service levels for services essential to the national welfare. The amount returned to the states would be according to an arbitrary formula rather than fiscal need. Responsibility for determination of the state share would have to be surrendered to the federal government, leading to fiscal dependence or lack of state responsibility for the protection and spending of the funds. The amount going to a state might not be related to fiscal need. If some states refused to surrender their own taxes, the federal government, nevertheless, would have to levy its tax in a uniform rate in all states.²⁹

²⁶ For example, Hansen and Perloff, Heer, Groves, and Shultz.

²⁷ See chs. IV and XV.

²⁸ See Schultz, *op. cit.*, pp. 697-699.

²⁹ *Ibid.*

Groves holds that the plan might be experimented with in the case of a tax like the tobacco tax where the tax has been generally adopted and is fairly uniform, where state administration is expensive or unsatisfactory, where objective and simple bases for distribution are available, and where the stake of individual states in the tax is relatively small. The Committee on Intergovernmental Fiscal Relations of the Treasury Department made a similar proposal.³⁰

FEDERALLY COLLECTED STATE TAXES

Where the federal government collects both federal and state taxes levied on the same source, administration is improved and simplified, collection costs are reduced, and convenience to the taxpayers is enhanced. Greater uniformity in state taxes would be achieved. In Australia either the federal government collects both the federal and state income tax or the state collects both. France and Mexico have used this method. It has been proposed that the United States administer and collect certain taxes, such as the income inheritance levies, allowing the states to add a percentage to the federal levy. Supplementary state rates would be superimposed upon the federal rates. The yield at the state rate would be returned to the state. A state that did not want to use the device would be free to levy its own tax as it now does. However, all states participating would have to accept the federal basis for the tax.³¹

The plan would not work for all taxes. Some of the very taxes which the federal government can most easily administer and collect could not be used. In the case of commodity taxes which the federal government can collect from the initial manufacturers, refineries, or processors, it would be impossible to impose extra state levies. Such commodities cannot be separated according to the state in which they will become taxable. State supplemental income taxes would have to be collected according to residence rather than source of income. Nor would the plan eliminate the factor of interstate competition or differences in fiscal capacity that lead to inequalities in essential public services.³²

³⁰ See Groves, *op. cit.*, p. 458.

³¹ *Ibid.*, pp. 458-459.

³² See Shultz, *op. cit.*, p. 700.

JOINT ADMINISTRATION

The United States has not the constitutional legal machinery for joint state and local administration of certain taxes as has been done in Australia. Under this device states may utilize federal collection agencies by paying the costs involved, or the federal government may farm out administration of certain taxes to the states, reimbursing the state for the cost involved, or a joint agency may administer and collect the tax. The advantage in the plan is that it enables the states and the federal government to choose the cheapest collection plan and the most effective administration and enforcement agency. It might stimulate some uniformity in state tax laws. Otherwise, it is subject to all of the limitations of federally collected state taxes.³³

SEPARATION OF SOURCES

About the only major tax sources not utilized by both the federal and state governments are the general sales tax and the property tax, which is becoming a purely local tax. The Interstate Commission on Conflicting Taxation (1934) proposed that the federal government surrender the taxation of gasoline and electricity to the states and the states in turn surrender to the federal government the tobacco and liquor taxes. Shultz suggests that states might tax incomes below \$25,000 and death taxes for estates below \$100,000 with the federal government alone taxing the higher brackets.³⁴ The Committee on Intergovernmental Fiscal Relations of the Treasury Department proposed that the federal government abandon all motor vehicle taxes.

Separation of sources would enhance convenience to the taxpayers and reduce federal-state conflicts, but it would not necessarily improve administration, fiscal capacity, revenue yield, interstate competition and jurisdictional conflicts, or maintenance of defensible service levels. For most taxes the federal unit has the advantage in administration. Even the sales tax could be much better administered as a tax on manufacturers. In the case of the motor vehicle tax the states have the advantage in enforcement. States also are not at a great disadvantage in administering the income tax on small incomes, but the federal unit

³³ See Groves, *op. cit.*, pp. 459-461.

³⁴ Shultz, *op. cit.*, p. 696.

with its greater power to borrow during deflation is in a better position to rely more heavily upon income and estate taxes than the states. Federal taxes even on sales do not present the jurisdictional conflicts, problems of multiple taxation, and competitive factors present in state tax administration.³⁵

DEDUCTIONS

The reciprocal arrangement by which state taxes can be deducted in determining the federal tax base and federal from state has been used to a limited extent with income taxes. Its equity appeals to the taxpayer. It operates to reduce the competitive disadvantage of states with income taxes and it checks evasion through migration. The net effect, nevertheless, is to reduce the revenue yield of each unit. It has very limited usefulness as a coördination measure.

CREDITS

The crediting device has been utilized in the case of payroll and estate taxes. It permits taxpayers to pay federal taxes with state tax receipts. Its primary purpose is to reduce federal-state and interstate tax conflicts. In the case of the inheritance tax, it eliminated interstate rate-cutting for competitive advantage. On the other hand, crediting increases the federal rate in order to offset the revenue loss; and the states escape responsibility for their rate structure. Without prior agreements as to state rates the federal government will hesitate to extend the policy. It does not solve the problems of multiple taxation, diversity in state tax provisions, differences in fiscal capacities, and dual administration of the taxes. Nevertheless, it can be improved and should be extended to gift taxes. It might be extended to the income tax, thereby indirectly forcing all states to adopt the tax if coercion were desirable. It reduces the yield of the federal tax, and it does little to correct other evils resulting from the lack of tax co-ordination.³⁶

JOINT RESEARCH AND PLANNING

Another proposal is that there be created a joint federal-state fiscal authority with no power to administer taxes or to determine tax

³⁵ See Groves, *op. cit.*, pp. 454-456.

³⁶ *Ibid.*, p. 457.

policy.³⁷ It would be a continuous, official, advisory and negotiating body to the federal and state governments. Its power would be limited to making recommendations for or advisory opinions upon proposals for tax coördination. It would carry on research, formulate proposed plans, and disseminate facts. The proposal is made on the grounds that fiscal relationships are constantly changing, that voluntary co-operation is essential to get coördination, that legislative and administrative channels must be used, and that continuous, impartial expert opinion is needed to give direction to the coördination movement.

EXCHANGE OF INFORMATION

Another channel of voluntary coöperation is the exchange of information basic to the formulation of tax policy, administration, and enforcement. State officials now can use federal income tax and audit data by paying a moderate service fee, and most states use this information service. Some progress has been made in the exchange of data relative to liquor taxes. This device can be extended to other states and to other taxes.

FEDERAL TAX REFORM

Whether or not public schools receive increased tax revenues from federal sources, the implications of federal taxation for state and local tax support and the functioning of our economic system force them to be concerned with federal tax policy. The long term need for federal-state tax coördination has centered attention upon certain reforms. The heavy federal debt and high wartime taxes have brought out a number of proposals dealing with the federal tax system itself, often without reference to the total tax problem.

TWENTIETH CENTURY FUND (1937).³⁸

Before the imposition of heavy wartime federal taxes, the Committee on Taxation of the Twentieth Century Fund among other recommendations proposed these changes in federal fiscal policy:

³⁷ Treasury Department, *Report of Committee on Inter-Governmental Fiscal Relations*, Vol. I (1943).

³⁸ Twentieth Century Fund, *Facing the Tax Problem* (1937), pp. 393 ff.

1. Reduce gradually tariff rates;
2. Repeal federal surtax on undistributed profits of corporations;
3. Repeal the progressive income tax provisions for corporations and use flat rates;
4. Lower personal exemptions and credits for dependents under federal personal income tax;
5. Eliminate tax-exempt federal securities;
6. Increase federal death tax rates and lower exemptions;
7. Adjust gift tax rates and extend crediting to gift taxes;
8. Replace excess profits tax with a tax at nominal rates covering a five- or ten-year period;
9. Repeal federal capital stock tax; and
10. Abolish federal commodity taxes excepting those on liquor, tobacco, and gasoline.

TREASURY COMMITTEE ON INTERGOVERNMENTAL FISCAL RELATIONS (1943).³⁹

The report of this committee issued during the war dealt primarily with tax coordination. It proposed that the federal government:

1. Allow deductions of state income taxes upon an accrual basis;
2. Revise, modernize, and broaden death tax credits;
3. Overhaul the estate tax, reducing exemptions, and integrating the tax with the gift tax;
4. Eliminate tax-exempt securities;
5. Provide that community property tax laws shall not apply to federal income taxes;
6. Provide payments in lieu of taxes under the immunity doctrine;
7. Allow state sales taxes to apply to contractors working on governmental orders;
8. Increase the federal credit under unemployment compensation taxes;
9. Make the tobacco tax a federally collected-state shared tax;
10. Abandon motor vehicle taxes to the states;
11. Reduce regressiveness of the tax system by deemphasizing business taxes; and
12. Repeal federal liquor license fees.

³⁹ Treasury Department, *Report of Committee on Inter-Governmental Fiscal Relations*, Vol. I.

POSTWAR PROPOSALS

A number of proposals have been advanced for postwar tax reform from such agencies as the Twin Cities Research Bureau,⁴⁰ the National Planning Association,⁴¹ Committee for Economic Development,⁴² Brookings Institution,⁴³ and Committee on Postwar Tax Policy.⁴⁴ The underlying objective of all these proposals is the preservation and expansion of the private enterprise system as a means of promoting full employment and prosperity. The detailed rate structures of such proposals depend for their validity upon the volume of federal spending, the trend in the national income, the specific taxes retained in the tax system, and federal-state relations in taxation. Nevertheless, there is general agreement among the plans (with the exception of the Twin Cities) as to the direction that federal tax reform should take, namely:

1. Retain the present low personal exemptions and credits for dependents, but reduce the rates in the upper brackets;
2. Eliminate double taxation of income from corporations under the corporate and individual income taxes, either by reaching the income entirely through the individual income tax or by giving stockholders credit for the tax paid on distributed income by the corporation;
3. Repeal the progressive rate structure for corporate income taxation and substitute a flat rate under a single tax applying to all business or abolish the tax completely;
4. Repeal excess profits tax;
5. Reduce the number of commodity taxes, retaining those on liquor and tobacco.

EFFECTS OF CHANGES

The effect of postwar federal tax structure of the type envisaged in most of these reports would be to make the income tax largely a federal tax, leaving taxes on consumer spending as the major source

⁴⁰ Julian B. Baird and Others, *The Twin Cities Plan: Postwar Taxes* (1944).

⁴¹ Beardsley Ruml and H. Sonne, *Fiscal and Monetary Policy* (1944).

⁴² Harold M. Groves, *Postwar Taxation and Economic Progress* (1946); and The Research and Policy Committee, *Taxes and the Budget* (1947).

⁴³ Lewis H. Kimmel, *Postwar Tax Policy and Business Expansion* (1944).

⁴⁴ H. H. Lutz, *A Tax Program for a Solvent America* (1945).

of state revenues. If the Twin Cities proposals were followed as to the retention of all federal commodity taxes plus a federal sales tax, states would be forced to rely more upon the federal tax structure for support. The heavy reliance upon income taxes envisaged in most of the proposals would make the federal tax system very unstable, but its ability to utilize deficit spending would offset the instability. On the other hand, state tax systems would be relatively stable. The economic effects of relatively high federal income taxes on the lower income brackets plus the burden of state and local consumption and property taxes would have to be watched. A proper balance must be retained between the creation of risk capital and luxury spending and the maintenance of mass living standards and consumer buying power. The support of public schools depends more upon the effective functioning of the economic system than it does upon particular taxes or taxing institutions.⁴⁵

SUMMARY

The federal government has replaced local government as the dominant taxing unit in the United States. As a tax collector in a national economy, the federal government has many advantages not possessed by states and localities. It is not so handicapped by migration and evasion. Federal tax policy can be more easily manipulated to promote economic objectives. The federal unit is in a better position to collect and enforce income taxes. It can collect many taxes more cheaply than the state. However, the incidence of heavy federal taxes increases taxpayer resistance to state and local taxes.

The federal government has practically usurped the income tax and it has made use of many of the consumer taxes upon which states depend. The problem of federal-state relations in taxation remains to be solved. Federal assistance to the states has tempered somewhat the impact of federal taxes, but federal assistance programs are insignificant compared with postwar outlays for past wars, future wars, and international political and economic programs. Except for emergency grants, federal assistance for schools has been relatively insignificant.

⁴⁵ Allen and Brownlee, *op. cit.*, Part Four; and H. M. Groves, *Viewpoints on Public Finance* (1947), chs. IV, VI-IX, and XII.

Adoption of the pending federal aid bill would not alter this fact very much.

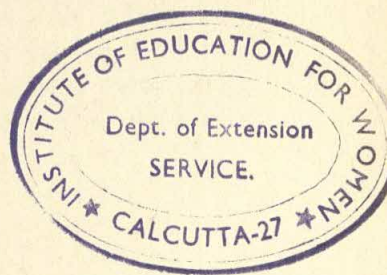
Among the federal tax problems of vital concern to schools are (1) providing federal support in lieu of taxes for tax-exempt federal properties within states and local jurisdictions; (2) coördinating federal-state tax policies; and (3) reducing the burden of federal taxes as rapidly as international developments will allow.

READINGS

Allen and Brownlee (1), Parts II and XI; Chisholm (20); Groves (75), ch. XXVIII; Groves (76), chs. IV, VI, and XII; Hansen and Perloff (77), chs. VII, VIII, and XI; Harris (78), chs. VI and VIII; Heer (80); Mort and Reusser (118), chs. XXIV; Shoup (157), chs. XXVI and XXVII; Shultz (158), chs. X-XIII.

..... Part Three

CENTRAL FINANCE AND FISCAL RELATIONS



CHAPTER X

Federal and State Policy in School Finance

Federal and state policy in the financing of public schools and central-local control relationships should be considered together, but central governments in the United States seldom have followed consistent policies. There have been many unintentional shifts in control or fiscal policy growing out of practices the implications of which were not understood. The methods of apportioning financial assistance to school systems have not always been in harmony with intended policies. Discretionary powers given central agents sometimes have brought about shifts in control without legislative sanction.

The federal government for over a century promoted the establishment of a decentralized school system; then it went to the extreme of using central finance to promote federal objectives within the decentralized system; and finally it created federally controlled and financed educational enterprises within states.

All states have used central finance to stimulate a decentralized school system with local tax support for schools. All states, on the other hand, have established various central controls over schools, such as compulsory attendance, minimum length of term, minimum qualifications of teachers, required curricular offerings and services, and minimum requirements for school buildings, that place very unequal tax burdens upon local school systems with varying fiscal capacities. Yet some states provide practically no central support. Most place restrictions on local taxation as well. Most states provide no central support for school buildings in spite of the many state

regulations which affect building costs. Hence, the decentralized structure in some states cannot fulfill state demands.

State fiscal policy for the support of schools varies from almost complete absence of state financial participation to almost complete state financing. In between these will be found (1) centrally collected-locally shared taxes which imply a minimum of state direction and fiscal responsibility; (2) central support predictable in amount to supplement locally collected revenues, which implies a somewhat higher level of state concern; (3) central support to equalize service provisions and local tax burdens, which implies a high degree of state responsibility in a partnership with local units; (4) central support to promote or stimulate state purposes which utilizes the decentralized structure for state ends and so represents a very high degree of central control. At times, most states have pursued two or more conflicting fiscal policies.

Although most states have created local school units that are fiscally independent of other local units of government, other states have made all school systems a department of town or city government. Some states have a combination of the two policies. Others have negated fiscal independence by subsequent tax limitation or budgetary review policies as summarized in Chapters IV and VI.

DEVELOPMENT OF FEDERAL POLICY

The Constitution of the United States contains no reference to public education. Thus, it has been largely a matter of state jurisdiction under the Tenth Amendment, which provides that "powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." Yet the federal government from its inception has been concerned with public education, a concern that has been justified under the General Welfare Clause of the Constitution. The national government has been interested in establishing decentralized state school systems, stimulating certain educational activities within states, directly providing certain educational services within states, and providing education within federal jurisdictions.

1. *Establishing state school systems.* Most states admitted to the

union since 1789 were created out of territories belonging to the federal government. In each territorial act, provision was made for a public school system.¹ As a condition for admission to statehood, Congress had stipulated requirements as to schools. Beginning with a very general provision in the case of the admission of Ohio in 1802, the requirements gradually became more detailed and specific. When Oklahoma was admitted in 1906 Congress required (1) a public school system free of sectarian control, (2) schools conducted in English, and (3) recognition of separate schools for colored and white populations, as well as the usual provisions regarding school lands.² The last enabling act passed in 1910 and applying to New Mexico and Arizona required that schools, colleges, and universities provided in the act should forever remain under the exclusive control of the state.³

The federal government during the nineteenth century made land grants to promote education in general within the states. The Ordinance of 1785 directed that section number sixteen in each township should be reserved for school support. The Ordinance of 1787 expressed territorial policy in these terms, "Religion, morality, and knowledge, being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged." Beginning with the admission of Ohio in 1802 the federal government proceeded to implement this policy by reserving lands for school support. These land grants were made either to the township (e.g., Alabama, Indiana, Ohio, and Mississippi) or to the state for support of schools in the townships (e.g., Illinois, Missouri, and Arkansas).⁴ When Michigan was admitted in 1837, the lands were given to the state for the support of schools regardless of township lines. This policy was generally followed for states admitted after 1837. Many states later were given grants of salt lands, lands for internal improvements, and swamp lands, part of all of which could be used for school support.

The same policy of promoting schools within states was followed

¹ E. P. Cubberley, *State School Administration* (1927), p. 111.

² National Advisory Committee on Education, *Federal Relations to Education* (1931), II, 16.

³ *Ibid.*, p. 20.

⁴ Cubberley, *op. cit.*, pp. 23-24.

in making early monetary grants. Twenty-nine states were given a percentage of revenues from the sales of federal lands within the state. Sixteen of these were required to use these monies for schools.⁵ Like land grants, these money grants for schools generally were not accompanied by any federal controls. The definition of schools usually was left to the states. There was practically no federal check on the use of the funds by states.⁶

2. *Federal direction to educational development in states.* The Civil War directed attention to the national interest in specific types of education. The war called for increased agricultural and industrial production as well as military training. The passage of the Morrill Act in 1862 marked a new departure in federal policy, the stimulation of specific types of education within states. The act provided land grants to establish colleges of mechanical and agricultural arts which would also provide for military instruction under state control. Beginning in 1890 money grants were provided for supporting these institutions on condition that no discrimination because of race was made.

The Morrill Act was only the beginning of federal direction of state educational activities through stimulation grants. There followed special aids for nautical schools (1874), agricultural experiment stations (1887), coöperative extension work in agriculture and home economics (1914), R.O.T.C. program (1916), vocational education (1917), and vocational rehabilitation (1918 and 1920).

The national concern over agricultural and industrial production during World War I led to federal promotion of the vocational objective below the college level in the states. The Smith-Hughes Act of 1917 created a Federal Board for Vocational Education. Grants were made for vocational education in agriculture, trades, industry, and home economics and for the preparation of vocational teachers within state school systems. The grants were made upon a matching basis with states required to meet specific regulations. States were required to submit plans to a federal agency for approval. Hence, the federal government not only attempted to direct the development of

⁵ Educational Policies Commission, *Federal Activities in Education* (1939), p. 3.

⁶ *Ibid.*, p. 4.

public education within the states, but also assumed detailed controls over the program offered.⁷

The depression and World War II brought about further extensions of federal determination of the educational activities of states through money grants. As in previous crises, the action expressed the national concern with production and military strength, but to these were added public service, distribution, and the conservation of human resources. Vocational education grants were extended to distributive and public service occupations in 1936. During the '30's the federal government also promoted adult education, nursery schools, recreation programs, school buildings, apprentice training, pilot training, and vocational guidance. During the '40's defense training, nurse training, school lunches, training for food production, school buildings and child care centers in war affected areas, and planning postwar school building projects were added to the list of subsidized educational activities within the states. The subsidies often were accompanied by detailed prescriptions and federal approval of state plans. Sometimes the grants were made directly to schools or school systems, circumventing state educational authorities.

3. *Federally controlled and financed services within states.* For ten years (1933-1944) the federal government administered and financed a number of educational activities within states. (1) The various federal relief agencies between 1933 and 1939 had a program of education for illiterates and adults and nursery schools. Although the state educational authority had to approve the programs and personnel, final authority remained with a federal agency. (2) The Civilian Conservation Corps created in 1933 and administered by the Army until 1939 carried on a variety of federally controlled educational activities within the states until it went out of existence in 1942. (3) The National Youth Administration was inaugurated in 1935 to provide for youth not in school. Its program of works projects, vocational training, guidance, and placement was administered and financed by federal agencies. It functioned as a parallel educational agency within states until 1944.

4. *Education within federal jurisdictions.* The federal government

⁷ *Ibid.*, pp. 27 ff.

itself has direct jurisdiction over public education in many areas such as Indian reservations, outlying territories and possessions, and special areas, districts or reservations within the United States not subject to state jurisdiction, such as the District of Columbia and Oak Ridge. However, there is no general national policy of public education or finance within the areas of national jurisdiction. Responsibility is divided among different departments or agencies with little coördination among them. The degree of responsibility assumed varies from complete indifference or neglect (leaving it to parents to make whatever provisions are necessary) to providing a very high degree of educational opportunity, as in Oak Ridge and Washington, D. C. Although outlying territories often are given a high degree of local autonomy in education and are given the same federal assistance available to states, there is no uniformity in this respect. Individual agencies tend to determine their own policies quite independent of what policies other agencies are following.⁸

CONFLICTS OVER FEDERAL POLICY

Present policies of the federal government in the financing of public schools may be characterized as expedients. On the one side, national survival, economic change, taxing potential, mobility of population, specialization, and scientific advances tend toward centralization. Centralizing forces recognize the need for decisive action and despair of the slowness, the blind adherence to tradition, and the decadence of state and local government. They recognize the fiscal limitations of the decentralized system, and turn to the federal government for a hearing and prompt action. They maintain that in a complex civilization like ours only the technically competent can guide policy formulation and this can be done most effectively on the national level. It would take decades for advanced knowledge and insights to reach the local governmental level. They emphasize that the problems of our times go beyond state boundaries. They point out the lack of vision and the administrative incompetence at the state and local levels of government. Whenever such a group of experts gets a hearing in Congress, centralization follows.

⁸ National Advisory Committee, *op. cit.*, Part I, pp. 41 ff.; The Advisory Committee on Education, *Report of the Committee* (1938), pp. 162 ff.

Many educational leaders, on the other hand, emphasize the beneficial effects of local government upon the participants. They put the long-term benefits of decentralized government ahead of the immediate benefits obtained by centralization. They maintain that there is more flexibility and adaptability in a decentralized structure than there is in a centralized system. Although they oppose centralizing tendencies, they admit that education is a concern of all the people, especially in a nation with a mobile population, universal suffrage, and an interdependent, private-enterprise economy, and that there is a fiscal necessity for using federal tax revenues to support schools. They hold that finance and control can be separated. They oppose the use of federal funds to stimulate specific educational developments. They hold that such grants do not lead to a balanced educational program and that each stimulation grant leads to further grants for other specific purposes. This latter group, however, has had little effect upon federal educational policy during the past quarter of a century.

NATIONAL ADVISORY COMMITTEE

The conflict in thinking on federal policy in education is revealed by the two major committee reports on federal aid for schools. The National Advisory Committee report (1931) recognized that all the people in the nation are concerned with education in all states and that they are justified in using their federal tax system for equalizing educational service levels and state and local tax burdens for school support. However, they held that such grants should be for public education in general and not for specific purposes upon a matching basis. The report holds that matching strains state and local tax resources, distorts budgets, and unduly favors certain activities. It decries federal regulations and approval of state plans, holding that policy formulation and operations can best be performed on the state and local level. It would limit the federal government to leadership and audits and would require federal agents to function through the established state educational agencies. It would apply the same principles within federal jurisdictions.⁹ The Educational Policies Commission (1938 to 1945) has taken this position and has opposed the National

⁹ National Advisory Committee on Education, *op. cit.*, Part I, pp. 27 ff.

Youth Administration and the Civilian Conservation Corps programs.¹⁰

THE ADVISORY COMMITTEE ON EDUCATION

The Advisory Committee on Education report (1938) held quite different views; namely that "there must be a limited amount of control directed primarily at honesty, legality, and efficiency in expenditure of federal funds."¹¹ It held that a major portion of federal financial assistance should be for general school support and equalization without prescription and with local administration and control of the processes and expenditures.¹² However, it endorsed stimulation grants for activities in the national interest and proposed special grants for reading materials, transportation, scholarships, teacher preparation, school buildings, state education departments, vocational education, guidance, adult education, libraries, and research. It did not object to matching for special projects where the objective was not equalization. It proposed a number of federal controls including federal approval of state plans, equitable distribution of funds for Negroes, providing books, transportation, and scholarships for nonpublic schools and authorizing local school systems to provide welfare services for nonpublic schools, restricting the exploitation of children, requiring coordination of schools and other social agencies, and the maintaining of an adequate state administrative agency.¹³ This committee approved parts of the National Youth Administration and Civilian Conservation Corps programs, but opposed competing agencies. It held that the federal government should have explicit purposes to be promoted in education. It did not oppose federal regulations, but called for their constant review.¹⁴ It did not fear unintentional shifts in control, proposing that discretion over the formula for federal financial assistance to schools be left with federal agents.¹⁵

¹⁰ Educational Policies Commission, *Federal-State Relations in Education* (1945), pp. 23 ff.

¹¹ The Advisory Committee on Education, *Report of the Committee*, p. 41.

¹² *Ibid.*, pp. 41-42.

¹³ *Ibid.*, pp. 197 ff.

¹⁴ *Ibid.*, pp. 42-43.

¹⁵ *Ibid.*, pp. 205-206.

CONSEQUENCES OF EXPEDIENCY AND INERTIA

The lack of a unified federal policy in the financing of education is a source of friction and confusion. Morphet finds that,

Many of the present difficulties arise from the fact that the federal policies involving relationships with education have never been specifically defined. Congress has sometimes acted in accordance with one policy and a little later has seemed to recognize a totally different policy as a basis for its decision. Each federal agency tends to develop its own set of policies with the result that relations at the present time are little short of chaotic. The schools do not know what to expect, and are constantly confronted with some new and irregular type of relationship which makes a consistent and properly planned program almost impossible.¹⁶

He proposed that "the Federal Government should clearly define its policies relating to education, and then consistently should follow recognized policies."¹⁷

As shown by the Educational Policies Commission, the shift of control to federal agencies has not been a deliberate policy. It has been the unintentional result of responses to emergencies and pressures of special interest groups. It has come about by accretion. The Commission points out that inaction in providing funds creates the conditions that lead to extensions of federal controls.¹⁸

IMPLICATIONS OF DECENTRALIZATION FOR NATIONAL POLICY

The survival of a decentralized structure for public education depends upon its ability to adapt itself to national needs. Adaptability in turn depends upon having the financial resources to make whatever provisions changed conditions demand. Since states and localities vary both in fiscal capacities and demands upon schools, without federal financial assistance parts of the decentralized structure must fail inevitably.

¹⁶ Edgar L. Morphet, "Relationships of Education to Government" in National Society for the Study of Education, *Structural Reorganization* (44th Yearbook, Part II, 1945), p. 182.

¹⁷ *Ibid.*, pp. 181-182.

¹⁸ Educational Policies Commission, *Federal-State Relations in Education*, pp. 13 and 21.

A federal fiscal policy designed to preserve the decentralized structure presumes federal financial assistance for education in general, confining the federal government to expert leadership and service to states in planning and carrying out their educational programs. Federal leadership should operate only through the established educational agencies in the states. Federal control should be limited to audits and reports on the use made of federal funds. To avoid unintentional shifts in control, the methods for apportioning federal financial assistance must be objective and subject to calculation in advance by state agents. Control over education and expenditures for education should be left to states and local school systems. No state should participate unless its legislature formally accepted the federal assistance. The funds should be used for such schools, services, or undertakings as are recognized as part of the public school program by each state.¹⁹

EVOLUTION OF STATE POLICY

State policy in the financing of public schools cannot be determined solely from constitutional provisions and statements of legislative intent. The effects and implications of schemes for apportioning state funds must be examined. Controls found in other legislation, regulations, and accrediting standards must be studied to determine their fiscal consequences.

States at any given period will be found in various stages of policy development. Often states regress to an earlier step in the evolution of fiscal policy without realizing it. States will be found to be pursuing two or more different fiscal policies at the same time. Nevertheless, state fiscal policies have evolved roughly according to the following steps: (1) use of a small amount of state financial assistance to encourage the creation of a decentralized school system supported largely by local taxation; (2) establishment of state minimum requirements to bring about equality of opportunity within the decentralized structure; (3) provision of state collected-locally shared taxes or small grants-in-aid to help school districts attain minimum standards; (4) use of state funds to promote state purposes and district reorganization and to promote local taxation for these objects; (5) special financial provisions for enabling fiscally weak districts to meet state minimum

¹⁹ *Ibid.*, pp. 23 ff.

standards; (6) use of state funds for equalizing the local tax burden for supporting a state minimum program; (7) provision of central support to supplement local taxes in all districts, but predictable in amount; (8) direct state financing of certain local operational costs; (9) complete state support of a state minimum program; and (10) restrictions on local taxing power, outlined in Chapter VI.

The purposes of state financial policy frequently have been defeated by the methods of distributing state financial assistance. Particularly in the early decades (and to a considerable extent today) states lacked the statistical measures necessary for the equitable apportionment of state school funds. Furthermore, equality for a long time was interpreted to mean the giving of equal amounts of state money per capita and many constitutional provisions even at present provide for the per-capita apportionment of state school revenues. Methods of apportionment suitable for an earlier fiscal policy have been applied to a later policy without realization of the negative effects. States were not very concerned with inequalities in local tax burdens for schools during the nineteenth century. The full impact of industrial trends and educational advances upon local units of government and the property tax base was not felt until after 1900.

ENCOURAGING DECENTRALIZATION AND LOCAL TAX SUPPORT

The history of state attempts to encourage the establishment of local schools with local property-tax support has been summarized in Chapters V and VI. This policy called for only small amounts of state assistance, usually the income from the permanent fund. Nor was the method of apportionment a serious problem; it was necessary only to have a way of getting some money to school districts that were willing to establish schools and to tax themselves. Usually the only statistical measures available at first for all localities were population and wealth; so they were used. As schools became established and reports were required, measures based upon the number of children of school age, enrollment, or actual attendance became available and were utilized.

The tendency under this policy has been for state school support to become decreasingly important in total school revenues as local taxa-

tion increased. Furthermore, some states made local school taxation mandatory, enforcing the mandate by withholding state funds. By 1890 state school support had become negligible in Colorado, Delaware, Idaho, Illinois, Iowa, Kansas, Massachusetts, Michigan, Montana, Nebraska, Nevada, New Hampshire, New Mexico, Oregon, Vermont, Washington, and Wyoming—over a third of the states. By 1920 Florida, Indiana, New York, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, and West Virginia had reached this status.²⁰ Over half the states have passed through this phase. However, the only state that had not advanced beyond it by 1949 was Nebraska.

A state that creates an extremely decentralized school system like Nebraska and then allows it to assume almost full financial responsibility for schools leaves itself open to these consequences: (1) increasing inequalities in fiscal capacity; (2) increasing inequalities in local tax burdens for schools, the heavily taxed areas eventually seeking relief through tax limitations or exemptions; (3) very meager educational facilities and low standards in the fiscally weak districts in which the pressure for emigration is strong, so affecting other sections of the state and other states; (4) a gradual state-wide deterioration in teaching service through failure to attract able youth and migration of the most competent to other states or other occupations; (5) a difficulty in exercising local initiative and adaptability in local government because of the heavy burden placed upon the local tax base and the resulting lack of taxing margin.

STATE MINIMUM REQUIREMENTS

After decentralized school systems were once established, states found that there were wide differences in school attendance, length of term, qualifications of teachers, and physical facilities. Tuition charges and fees also were creating economic barriers to elementary education. Although state school agencies were created primarily to apportion state funds and obtain reports on how the money was being used, they soon became concerned with the wide disparities in educational opportunity. Public interest was aroused and attempts were made to establish minimum requirements and standards through legislation, regulations, and

²⁰ See ch. VIII.

accrediting. The basic causes such as extreme decentralization, differences in fiscal capacity, and public indifference where education was most needed were discovered early, but few states had developed effective means for surmounting them. States generally attempted to attain minimum standards at first through local support, which resulted in very unequal tax burdens. They then used some state tax revenues to supplement local taxes and to enforce state minimum standards, but the fiscal policies followed and the methods of apportionment used did not accomplish the equalization objective, as shown in the next section. Indeed, there is not much evidence that most states were very much concerned with inequalities in local tax burdens prior to 1900. Their primary concern was in attaining a minimum degree of elementary education for all and the elimination of tuition charges (rate bills) which kept children out of school.

One of the first state requirements to be established was that of a minimum term of elementary schooling. Massachusetts in 1789 required a six-months' term,²¹ and New York in 1812 tried to enforce a three-months' term. Most of the other early requirements generally were expressed in terms of twelve weeks. In 1889 twenty-five states prescribed a minimum term with over half still making the minimum twelve weeks, the highest being six months and the average being 3.7 months.²² Little progress had been made during the first hundred years toward going beyond the minimum first visualized in the pioneer states. Today all states with possibly one exception require a minimum term and over half of them require eight months or more.

The establishment of schools open for a minimum term was not sufficient to assure attendance during the nineteenth century. The importance of agriculture, the lack of mechanization in both industry and agriculture, and the low level of production still placed a premium on child labor. Massachusetts took the lead in passing a compulsory education law in 1852; and by 1900 over half the states had similar laws.²³ Today every state has a compulsory education law, affecting at least all children of elementary school age.

²¹ E. P. Cubberley, *Public Education in the United States* (1934), p. 98.

²² *Encyclopedia of Educational Research* (1941), p. 355.

²³ *Compulsory School Attendance Laws and Their Administration* (U. S. Office of Education Bulletin, 1935, No. 4), p. 8.

The establishment of state minimum qualifications for teachers did not materialize during the nineteenth century. In establishing school systems, states from the beginning were concerned over the qualifications of teachers. Massachusetts passed its first law relative to qualifications of teachers in 1781, but the actual licensing of teachers has been a local responsibility to this day.²⁴ As late as 1898 only three states had assumed full responsibility for licensing teachers. Most states had assumed some responsibility for regulating local licensing and issuing some state licenses, but the whole system was based largely upon the passing of examinations.²⁵

The states during the nineteenth century tried to secure equality of opportunity in elementary education through requiring a short minimum term, making attendance compulsory, and mandating that elementary instruction be free. Little progress was made in assuring the employment of qualified teachers and providing safe and sanitary buildings. Low as the requirements were, they caused inequalities in local tax burdens and they could not be enforced in fiscally weak districts, as shown by Cubberley in 1905.²⁶ He did not question the policy, but pointed out that "Minimum requirements of the state should be increased. If certain communities are not able to meet the new demands, it then becomes the duty of the state to render assistance."²⁷

Once the states established minimum salaries the financial demands of compulsory education and minimum terms had a serious impact upon the local property tax burden for school support. The first effect of these laws was a reduction in the length of term and states were forced to adopt "weak district aid" laws to insure the maintenance of schools for the prescribed term. As shown in Chapter XIII, the first state to adopt such a law was West Virginia in 1882. However, the movement did not begin to spread until after Indiana adopted its minimum salary law in 1901. After that the number of states using minimum salary laws to enforce state certification requirements stead-

²⁴ *Development of State Programs for the Certification of Teachers* (U. S. Office of Education Bulletin, 1938, No. 12).

²⁵ *Report of the United States Commissioner of Education 1897-1898*, II, 1662 ff.

²⁶ E. P. Cubberley, *State School Funds and Their Apportionment* (1905), pp. 25 ff.

²⁷ *Ibid.*, p. 17.

ily increased. By 1920 nearly half the states had begun to mandate minimum teachers' salaries.

Over a century of experience in attempting to secure equality of educational opportunity through mandatory legislation, minimum standards, and minimum requirements has demonstrated that the policy by itself is ineffective in a decentralized school system with varying taxpaying abilities and local tax burdens. Unless financial provisions precede or accompany the minima, enforcement becomes impossible or indefensible tax burdens are imposed upon some local units.

STATE COLLECTED-LOCALLY SHARED TAXES FOR SCHOOLS AND SMALL GRANTS-IN-AID

One of the earliest policies adopted to overcome the fiscal inadequacies of the decentralized state school systems was that of state collected-locally shared taxes for schools. In the literature on school finance, these generally have been classified as variable grants-in-aid. Since the apportionment was determined by the tax yield, they should be classified as shared taxes. The fact that the tax often was shared on a per-capita basis and used for schools does not alter the policy. Many state taxes are shared with localities on a per-capita basis for various governmental purposes. Nor does the equalization purpose of the policy change its nature. The fact is that the policy failed to attain its intended purpose.

During the nineteenth century and the first part of this century, most state taxes for schools were of the sharing type. New Jersey in 1828 and 1837 apportioned school revenues to localities in proportion to taxes paid; after 1851 it combined this method with a population measure. From 1881 until 1946 it apportioned 90 percent of its state school property tax according to source.²⁸ Other states, e.g., Indiana (1836), have shared state taxes for schools according to source. However, most states used some population measure in apportioning the yield of a state tax at a fixed rate. The object was impartiality. Equalization was confused with equality in allotment of the revenues available. Some states, e.g., New York in 1851, discovered that variable per-capita allotment did not assure minimum educational services.

²⁸ P. R. Mort and W. C. Reusser, *Public School Finance* (1941), pp. 377-378.

nor equity in local tax burdens, but the policy has persisted. For this reason Chapter XI will be devoted to a discussion of state collected-locally shared taxes for schools, tracing their development and analyzing their limitations. Many of the grants-in-aid that have replaced shared taxes are not predictable, depending upon the state appropriation. These will be discussed in the same chapter.

STIMULATION GRANTS

The policy of using state funds to promote purposes or projects in which the state is especially interested appeared early in the nineteenth century. New York State as early as 1790 enacted an academic quota to promote academies; in 1834 it used state funds to promote teacher training and the purchase of books and apparatus in academies, but it did not promote anything in the common schools until 1864, when it made provision for a supervision quota. Such a quota had been in use in Pennsylvania since 1854.²⁹ By 1913 all states except Georgia, Oregon, and Wyoming had some special grants, but over half the states were not yet making extensive use of them. However, by 1923 all states had such subsidies and most states were using them for a variety of projects.³⁰ Since 1920 the tendency has been away from this centralizing tendency in states, but most states still have vestiges of the policy. It will be analyzed in Chapter XIV. It will be shown that the policy created educational disparities and unequal tax burdens.

SPECIAL AID FOR WEAK DISTRICTS

The discovery that state minimum demands created unequal local tax burdens and failure to comply in the weakest districts and that per-capita apportionments did not correct these brought about a policy of giving extra financial assistance to weak districts. The early district, school, and teacher quotas, some of which still exist, were a crude attempt to give special aid to sparsely settled districts with high costs, low valuations, and high tax rates (see Ch. XII). New York State was one of the first to recognize the problem when in 1851 it provided for dividing one-third of its state school revenues equally among

²⁹ *Ibid.*, p. 378.

³⁰ Lester N. Neulen, *State Aid for Educational Projects in the Public Schools* (1928), pp. 10-11.

districts. Its purpose was to assure every one-teacher district enough to employ a teacher regardless of sparsity or taxable wealth. The policy was conceived largely in terms of equalizing elementary education in one-teacher districts in most states prior to 1920. By 1905 over a fourth of the states had such quotas.³¹

The aid-to-weak-districts policy was the forerunner of the equalization policies so common today. In 1874 Massachusetts introduced the policy of limiting aid to poor districts, a policy which was adopted by Vermont in 1894, New Hampshire in 1899, and New York in 1902. When Vermont introduced the concept of using aid to equalize local tax rates in 1894 and Connecticut refined it in 1903 by supplementing the yield of a specified local tax rate in order to provide a specified amount of money per child, the key had been found to present-day equalization aid.³²

Special aid to weak districts did not make heavy financial demands upon the state. The Vermont plan was based upon a \$15,000 equalization fund and the New Hampshire scheme called for an annual appropriation of only \$18,750. North Carolina set aside \$100,000 for the purpose of assuring a four months' term.³³

Since this policy is a step in the evolution of modern equalization programs it will be taken up in detail in Chapter XIII.

EQUALIZATION SUPPORT

About 1920 the conflict between the stimulation policy and the equalization policy became clear. As indicated previously, some states had made a crude beginning toward the equalization of service levels and local tax burdens prior to 1900. Most states had introduced equalization features into their state aid laws before 1920. After Maryland inaugurated a program in 1922 based upon a state minimum salary schedule and allowances for other current expenses with the state making up the difference between the costs and a local tax of 67 cents a hundred, the equalization movement spread rapidly. A number of important research studies at this time clarified the demands of equaliza-

³¹ Cubberley, *op. cit.*, pp. 175-211.

³² *Ibid.*, pp. 205-208.

³³ *Ibid.*, pp. 203-206.

tion and contributed to clarification of fiscal policy.³⁴ The background, progress, and status of equalization as fiscal policy for schools is the subject of Chapters XII and XIII.

The essence of present policy is that the state will assure a minimum or foundation level of support in all school districts. This support is provided jointly by the state and local unit, the state supplementing the yield of a uniform local tax. Unfortunately, the level of support guaranteed in most states is unrealistic in terms of current operating costs, the carrying out of state minimum requirements, and the kind of education that can be provided with the funds made available. With budgetary control left with the local operating units, more or less complex formulae are employed to estimate operating cost requirements and fiscal capacity. Frequently the formulae are used as a means for distributing state collected taxes back to communities of origin.³⁵ On the other hand, the policy has reduced centralizing tendencies, made state support predictable by local operating units, stabilized public school revenues, relieved the pressure on the local tax base, strengthened local initiative, and provided a basis for further progress toward equalization.

PREDICTABLE GRANTS-IN-AID

The growing concern over equalization caused states to reexamine their policy of state taxes for schools shared with localities, generally on a per-capita basis. Constitutional provisions, tradition, and vested interests tended to retain the method of apportionment. However, the unpredictable nature of the funds and the need for a guaranteed minimum of support caused states to apportion a definite sum upon some statistical measure of fiscal need. Arizona, California, Utah and Washington pioneered in this development.³⁶ As pointed out in Chapter XI, many states now have such a policy.

Where the amounts of support per unit are large and cost variations are taken care of through weighting, the policy has the same advantages as the equalization programs involving local support. Indeed,

³⁴ See ch. XII.

³⁵ Mort and Reusser, *op. cit.*, p. 385.

³⁶ F. H. Swift, *Federal and State Policies in Public School Finance in the United States* (1931), p. 192.

some of them assure a higher level of opportunity than many state and locally financed equalization programs, and they free all local taxes for local initiative. Yet the fact remains that the same funds would provide a still higher level of opportunity if they involved a minimum local tax contribution. On the other hand, where the sums guaranteed are relatively small per unit, the only advantage over tax sharing is in predictability. The effects of differences in fiscal capacity are not greatly reduced, as shown in Chapter XI.

STATE FINANCING OF CERTAIN OPERATING EXPENSES

Students of the financing of public schools have given little attention to the policy of direct state financing of certain local operating expenses of schools. One of the largest items of operating expense often entirely state-financed is teacher retirement (in about forty of the states). While in New York and Ohio this appears as part of local operating expenditures, in states like Alabama, Illinois, New Jersey, Pennsylvania, and Wisconsin it appears as a state expenditure and not a local expenditure. In these five states alone this represented nearly a \$30 million state outlay for 1947-1948. Other examples include state purchase of textbooks, audio-visual aids, transportation, payment of superintendents' salaries, maintenance of schools in sparsely settled areas, and vocational education. These will be treated in Chapter XV.

The policy has many advantages. It eliminates the problems of joint financing where budgeting is done locally. It frees local resources for local initiative. It attains the advantages of centralization without sacrificing the advantages of decentralization. It makes for clear-cut divisions of responsibility. The danger is that some of the items selected for direct financing may impinge upon the exercise of local control. For example, state purchase of textbooks may destroy the teacher's freedom to select his own tools.

COMPLETE STATE SUPPORT

No American state has assumed full responsibility for the control, operation, and financing of all public schools as has been done in Australia, New Zealand, and other countries. Although the demands of equalization could best be met by such a policy, states have been

reluctant to break with tradition. Some states have been equally concerned with adaptability and preserving the advantages of a decentralized structure. Yet there is evidence that others have been more interested in retaining the machinery of local government than in allowing it to function. Tax limits, budgetary review, and central controls provide neither the advantages of centralization nor those of decentralization.³⁷

The furthest any state has gone in this direction is in the complete state financing of a state foundation program. Delaware took the lead in 1921 when it created a state unit for the financing of schools outside of Wilmington and the larger villages. Ten years later North Carolina provided for the complete support of a state minimum current expense program. Washington and a number of other states are approaching this policy. Chapter XII will be devoted to these plans with an analysis of their strengths and weaknesses.

The policy of complete state support of a state minimum program by itself is not in conflict with decentralization as long as localities are free to tax themselves and to exceed the state program. Indeed, the policy, by not requiring a local tax to provide the basic program, can release all local revenues for local initiative. The danger is that the amount of state support required might prevent a state from attaining the minimum service level that would be attainable with a combination of state and local support.

CLARIFYING STATE POLICY

The United States Office of Education provided for an exchange of information on fiscal policies prior to 1900, but the first hundred years of experience with state financing of schools did not become a serious subject of study until 1905. Cubberley's study published that year was the first of a number of important studies that have helped to shape state fiscal policies.

CUBBERLEY'S WORK

Cubberley was primarily concerned with methods of apportioning state funds. He concluded that few states had evolved just and equita-

³⁷ See ch. IV.

ble plans up to that time. However, he found practices in individual states that were soon to be followed by other states. Among the pioneer developments were (1) the use in Washington of an attendance measure weighted for sparsity, (2) the employment in California of a teacher unit based upon the number of pupils, (3) the establishment in Connecticut of a foundation level of support to which the locality contributed the yield of a uniform tax rate. Later combination and refinement of these brought about modern advances toward equalization.³⁸

The implications of conflicting state policies were not fully understood in 1905. Cubberley did not question state minimum requirements or the use of state funds to promote state objectives. He did not recognize the objections to maximum local tax rates for schools in a decentralized structure. He was not too concerned with equalizing local tax burdens, proposing only enough aid to supplement the yield of a maximum tax rate in the weakest districts. He thought that considerable discretion should be allowed to state agents in aiding weak districts, requiring localities to make formal application to a central agent for such assistance. He accepted "reward for effort" but proposed that many subsidized projects be brought under general aid. He proposed that all such grants be temporary. He thought equalization could be achieved by a relatively small equalization fund.³⁹ Nevertheless, he did help clarify the demands of equalization and gave an impetus to the equalization movement through his penetrating analysis of apportionment.

SWIFT'S STUDIES

Fletcher Harper Swift and his students made a number of intensive studies of individual states and analyzed the policies of all states for about fifteen years. Reviewing state practices about 1925 he concluded that "The more unsound, the more disastrous, and the more indefensible in every respect is a fiscal policy, the more widely we find it employed in systems of school support in the United States."⁴⁰ Like Cubberley he called attention to the weaknesses of most of the methods

³⁸ *State School Funds and Their Apportionment* (1905), pp. 250-253.

³⁹ *Ibid.*, pp. 219 ff.

⁴⁰ Swift, *op. cit.*, p. 211.

of apportionment being used, showing that they "produce, perpetuate, and increase local inequalities."⁴¹ His studies helped call attention to the dangers of stimulation grants and the limitations of "reward for effort," but he did not give much attention to tax limits or discretionary grants of power to central agents. In fact, he was not too concerned with preserving the decentralized state school systems, concluding that complete state support with substantial federal support was the only answer.⁴²

Swift's studies served to call attention to the improvements that were occurring in certain states: (1) the gradual trend away from the school census toward attendance measures, especially the improvement in weighted attendance measures in Washington; (2) the extension of the classroom unit method of apportionment to other states like Alabama and New York; (3) the trend toward substitution of fixed grants for variable per-capita apportionment, especially the California program; and (4) the gradual spread of equalization programs based upon a guaranteed minimum level of support with the state meeting any part of this not raised by a uniform local tax effort as in Maryland and New York or the state meeting the whole cost as in Delaware.

CONTRIBUTIONS OF MORT

The studies of Paul R. Mort and his students during the past twenty-five years in the various states have clarified the conceptual basis of policy and improved the techniques for carrying out an equalization policy. His contributions to conceptual thinking and principles are presented in Chapters XII and XIII. It is sufficient here to say that he has placed the emphasis upon rehabilitating the decentralized structure through equalization support with a deëmphasis upon centralizing tendencies.⁴³ The techniques that Mort and his students have developed for the equalization concept were first applied in New York in 1925 and gradually spread to a number of other states. The National Survey of School Finance completed under his direction stimulated a great

⁴¹ *Ibid.*, p. 191.

⁴² *Ibid.*, pp. 109 and 406 ff.

⁴³ See Mort and Reusser, *op. cit.*, ch. XVII.

many reforms during the past fifteen years.⁴⁴ This latter report did much to restrain the tendency to adopt local tax limits, central controls, and other centralizing policies.

OTHER FACTORS

Other factors have operated to clarify state fiscal policies. (1) The United States Office of Education and the National Education Association have helped shape policy through disseminating information on practices and research findings. (2) Almost every state has had one or more surveys of its financial policies and practices by specialists since 1920. (3) Since the publication of Pittenger's textbook on school finance in 1925 public school finance has become a subject of professional study for school administrators.⁴⁵

STATE FISCAL POLICY TODAY

A review of state fiscal policies relative to schools summarized in the next five chapters will show that there has been a great deal of progress since 1925. Swift's sweeping indictment made in 1925 would hardly apply now. (1) All states with the possible exceptions of Florida and Idaho have vestiges of former policies and pursue practices that promote a number of policies but the statistical measures used in apportionment have been greatly improved. (2) The majority of states today give primary emphasis to some kind of equalization policy, either through completely state-supported minimum programs or programs combining central and local support. (3) Most of the states which stress some kind of per-capita apportionments have supplemental equalization programs. (4) The difficulty with most of the equalization programs is that they do not assure a defensible minimum level of schooling, many using the equalization formula as a means for apportioning state collected taxes to all school districts to supplement the property tax base.

SUMMARY

Federal policy in the financing of schools in the United States has not been consistent nor clearly defined. The federal government used

⁴⁴ P. R. Mort, *State Support for Public Education* (1933).

⁴⁵ B. F. Pittenger, *Introduction to Public School Finance* (1925).

its resources to encourage the establishment of state school systems; it used finance to stimulate educational developments considered to be in the national interest; it has helped the state and local school systems meet crises and emergencies; it has financed federal educational institutions and activities, some of which were provided within the states; and it has pursued a number of different policies relative to the financing of schools within federal jurisdictions. The role of the federal government in the support of schools has been governed by expediency and immediate necessities. Conflicts in ideology and economic interests have prevented the acceptance of a clearly formulated national policy in public school finance.

State policy in school finance is characterized by variety. The different states are in various stages of policy development. Vestiges of former policies have persisted after a new policy has been adopted. Conflicting policies may be pursued at the same time. States sometimes revert to policies abandoned for good reasons. Among the financial policies that have gained acceptance are (1) stimulating locally operated schools and local school taxes, (2) using state money to enforce state requirements, (3) supplementing local property taxes by state collected-locally shared taxes, (4) stimulating educational projects within local school systems, (5) enabling fiscally weak local units to meet state requirements, (6) equalizing local tax burdens for the support of a state educational program, (7) making grants-in-aid to supplement local resources and to stimulate local initiative, (8) direct state financing of certain operations or operating expenditures in local school systems, and (9) complete state support of a state educational program.

There is evidence that state policy is being clarified. The majority of states are placing primary emphasis upon some kind of equalization policy. Most states which emphasize other policies have taken steps toward equalization.

READINGS

Bittermann (5), ch. III; Council of State Governments (31), Part II; Cubberley (35), chs. XXII-XXIII; Cubberley (37), chs. XVI-XVIII; Cubberley (38); Educational Policies Commission (49 and 50); Kil-

patrick (91 and 92); Mort (109), chs. II, III, and XI; Mort (110), chs. I-V; Mort (111), chs. II, VII, and VIII; Mort and Lawler (116); Mort and Reusser (118), chs. I, III, V, and XVII; National Advisory Committee (122), Vol. I; National Educational Association (130); Pittenger (149), chs. X-XI; Swift (171), ch. X; The Advisory Committee (175); Updegraff (180), chs. VIII-XI.

CHAPTER XI

Shared Taxes and Per-Capita General Grants-in-Aid for Schools

The literature on public school finance generally has treated the apportionment of permanent fund income and state collected-locally shared taxes as general grants-in-aid. Technically, the policy is tax sharing where the amount distributed to a subordinate unit of government in any year is determined by the yield of a tax or a group of taxes. Although the purest type of tax sharing returns monies to the jurisdiction from which they were collected, the method of apportionment does not distinguish tax sharing from grants-in-aid. The latter depends upon an appropriation. Where an appropriation is simply prorated among school districts the grant is a variable type of general aid. Where the amount of a grant per unit for apportionment is fixed by law, e.g., \$2.25 per census child, and where the grant is not earmarked for any specific educational purpose, the grant is a predictable type of general aid.

The distribution of permanent fund income, shared taxes, and general grants-in-aid has been associated with crude measures of fiscal need. The literature of school finance has centered attention upon the weaknesses of these means of apportionment. However, the fiscal policies themselves hardly call for refined methods of allocation. The fundamental and serious weaknesses of the policies cannot be overcome by refinement of the methods of apportionment. Since these fiscal policies have a great deal in common, they will be treated together in this chapter.

Methods of apportioning school funds from a larger unit of government to a subordinate unit had their origins in the Colonial era. Prior to statehood Massachusetts towns had tried most of the methods later adopted by states in apportioning money for schools. Among the devices used for distribution were the number of houses, number of families, number of able-bodied males over twenty-one, and the number of pupils. Money also was returned according to where paid or according to the assessed valuation of property (sharing according to wealth). Sometimes it was divided equally among districts—a crude type of equalization. There were also reserves to help the poor districts—the weak-unit type of aid.¹

APPORTIONMENT OF PERMANENT FUND INCOME

The methods of apportioning permanent fund income are very important in the development of state fiscal policy, because they were later applied to shared taxes and general grants-in-aid. They were extended to these without reëxamining the original purpose of the permanent fund or recognizing the lack of school statistics when permanent funds were first created.

BACKGROUND

The historical purpose served by permanent funds was to stimulate local interest in schools and local taxation for schools as shown in Chapter V. The operational purpose of permanent fund income did not call for refined measures of fiscal need. All that was necessary was to have some money flowing from the state to the locality as an incentive for raising local taxes or as a means for enforcing compulsory local taxes for schools. Indeed, if refined measures of fiscal need had been required, they were not available when schools were just being established.

The only means for apportioning school money from the state to the locality before schools became established were total population and taxable wealth. New York used total population from 1795 to 1800 and from 1814 to 1851. Massachusetts used total population

¹G. H. Martin, *Evolution of the Massachusetts School System* (1894), pp. 97-98.

until 1841. Delaware used the 1840 census of total population until 1901. In 1795 Connecticut provided for dividing its permanent fund income according to wealth, but changed to the census in 1820. New Hampshire also used a wealth measure beginning in 1828, but after 1848 used pupils attending school for at least two weeks. Pennsylvania used wealth as the sole measure for distributing aid from 1834 until 1897; and used it as a partial measure until 1919.

Once school government was created, it was possible to obtain an enumeration of population of school age. It was a simple statistic requiring no elaborate bookkeeping. It seemed an equitable measure of need since the locality should provide for the education of the entire group. Hence, the school census became the almost universal method of apportioning permanent fund income. In most states apportionment to any school district in any year varied depending upon its own census, the total census for the state, and the yield of investments, sales, and rentals. The long-term trend was for the per-capita apportionment to decrease and it came more and more to be regarded as supplemental assistance.²

The census basis of apportionment later became established in state constitutions and statutes. In 1905 a fourth of the states by constitutional mandate required that all school monies be distributed on this basis. Thirty-three states and territories required it by law.³ Over twenty years later Swift found that twenty-nine states still used the census for apportionment.⁴ In 1932 the census was still used in over half the states, about twenty using it as the chief or sole means of apportionment.⁵ Six states (Kentucky, Louisiana, Michigan, Nebraska, New Mexico, and Texas) still used the census for apportioning the major part of state assistance for schools in 1948 and in 1948 Massachusetts returned to this practice. Another eighteen used it for apportioning part of state school monies. Constitutional provisions and long-

² F. H. Swift, *A History of Public Permanent Common School Funds in the United States* (1910), and E. P. Cubberley, *State School Administration* (1927), ch. XVII.

³ E. P. Cubberley, *State School Funds and Their Apportionment* (1905), pp. 90 ff.

⁴ F. H. Swift, *Federal and State Policies in Public School Finance in the United States* (1931), p. 211.

⁵ P. R. Mort, *State Support for Public Education* (1933), pp. 99 ff.

established practices take decades to change even when their inadequacies are well known.

CURRENT STATUS

Nebraska is the only state in which the apportionment of permanent fund income is the dominant policy for state school support in 1948-49. The practice of prorating the income of permanent funds on a per-capita basis still prevails in many other states. In 1948 at least fifteen states apportioned the income of funds according to the school census. Alabama, Iowa, Kansas, Michigan, Montana, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Wisconsin, and Wyoming used it as the sole basis. Indiana and Nebraska apportioned part of the income on enumeration—making fifteen in all. Arizona and Minnesota used an attendance measure and Colorado the number of teachers. Louisiana and Maine apportioned the income according to original ownership of the lands.⁶

PER-CAPITA METHODS OF APPORTIONMENT

State collected taxes generally have been shared with localities on some per-capita basis as have general grants-in-aid. Since they have implications for fiscal policy, it is important to analyze the various per-capita measures before presenting the place of shared taxes and general grants-in-aid in state fiscal policy for schools.

THE SCHOOL CENSUS

The definition of children of school age has varied among states and within a particular state at various times. Generally the age limits have been established somewhere between five and twenty-one, with six to twenty-one as modal. Some states have defined the limits only in terms of elementary school age with thirteen or fourteen as the upper limit.⁷

The defects of the school census are many. (1) It usually is taken at a certain date and does not allow for migration or emigration occurring after that date. Sometimes it is not kept up to date annually. (2) It does not measure the public school task since there is no allow-

⁶ N.E.A., *School Finance Systems* (1947-48).

⁷ F. H. Swift, *op. cit.*, p. 210.

ance made for private-school attendance, children attending public schools in other districts, or poor attendance. Indeed, the census basis encourages lax enforcement of attendance laws. (3) The age limits may include children who are not yet in school or children who have completed schooling, or they may exclude children who are still in school. (4) The possibilities of error, carelessness, manipulation, and dishonesty are great under the census method of apportionment. (5) Like other raw per-pupil measures, the census ignores differences in length of term and pupil-teacher ratios.

Used to prorate state school money, the census has the following two serious drawbacks. (1) Densely settled urban districts that generally have the highest local taxpaying capacity generally receive more state assistance than sparsely settled rural districts that generally have the lowest taxpaying ability. Hence, it is not very different from apportioning state funds to localities according to wealth. (2) The costs of schools are only roughly related to the number of children of school age in a school district. Allowance must be made for varying length of term, low pupil-teacher ratios resulting from population sparsity, differences in price levels, and the type of program and facilities provided.⁸

ENROLLMENT

All other raw per-capita measures are subject to the basic limitations of the school census, but each refinement reduces these a little. Enrollment measures are subject to almost all of the limitations of the school census except that enrollment does not include children who are not in public school; it does include children who enroll for only short periods of time. A child who moves during the year may be counted two or more times for state apportionment. Enrollment can be made subject to more accurate and honest reporting than census, but it too can be manipulated.

The use of average daily enrollment or total days of enrollment removes the limitation of pupils enrolled for relatively short periods. In fact, the membership measures are the basis upon which school expenditures must be budgeted. The difficulty is that of determining

⁸ Cubberley, *op. cit.*, p. 173.

when a child's membership ceases. As a general rule he is legally enrolled as long as he is not enrolled in another school and is absent for legally permissible reasons. Obviously, he should be removed from the rolls immediately when he leaves the public school to attend a private school or a school in another district or to receive private instruction at home. A question arises in the case of prolonged illness and some arbitrary rule must be established. Massachusetts and Michigan have developed membership measures that are reasonably satisfactory. Delaware at one time used a weighted enrollment measure similar to the weighted attendance measures described below.

ATTENDANCE

Raw attendance is subject to all of the limitations of enrollment except that short periods of attendance can be cared for and the measurement is subject to better control. Although any pupil measure can be manipulated, the actual recording of presence or absence daily tends toward honesty, if not accuracy. It has been assumed that attendance is a better measure of actual budgetary requirements than enrollment. Perhaps it is, but average membership is more realistic than either.

Among the attendance measures that have been developed are (1) attendance for a specified period of time, (2) average daily attendance, (3) aggregate days of attendance, and (4) weighted attendance. The first of these includes only children who attend for a definite period of time—so many weeks or so many months. It fails to recognize that a district often must provide for those who attend for shorter periods. Average daily attendance generally is figured by dividing the total number of days of attendance of all pupils by the length of the term. It does not allow for epidemics, weather, tardiness, or religious holidays, but school districts must provide for all children who do attend at any time during the year. To meet this limitation some states allow districts to eliminate certain days in computing average daily attendance, e.g., when schools are closed because of weather or when there are epidemics. Other states allow districts to use the best days or best months in computing the average. There is no universal definition of average daily attendance, but it is one of the most commonly used methods of apportionment in use today. Aggregate attendance is

easier to compute than average daily attendance, but it has no other advantage over average daily attendance. Like all other raw per-pupil measures, average daily attendance or aggregate attendance when used for apportionment tend to increase pupil-teacher ratios.

Weighted attendance is one of the most refined of all pupil measures. By weighting, it is possible to measure more accurately the educational load of a locality. Weighted measures take account of cost differences arising from price-level differences, varying proportions of pupils at different grade levels, and other factors affecting the cost of like educational programs. Washington has been one of the earliest pioneers in developing this measure. It is the basis of the weighted units used for equalization aid.⁹ By the use of weighting it is possible to avoid many of the limitations of the other per-capita measures. Length of term has to be taken care of by statute and not the measure of need.

TRENDS

The trend is away from raw per-capita units toward weighted attendance (or classroom units) in the distribution of state school support. States that have advanced toward fiscal policies which assume a higher degree of state concern for education than do tax sharing or small general grants-in-aid have tended to develop more refined methods of apportionment as will be shown in the next chapter. However, enrollment and attendance measures have replaced the census in many of the other states. In 1948 Kansas used enrollment as its major basis for apportionment; Colorado the census and aggregate attendance; South Dakota the census and enrollment; Illinois and Minnesota average daily attendance; and Iowa aggregate attendance. In 1949 New Mexico substituted average daily attendance for the census and Texas began using weighted attendance as its basic measure.

At the present time there is a movement toward substituting average daily membership or some other membership measure for average daily attendance or other pupil measures; Connecticut, New Hampshire, Montana, Ohio, Oregon, and Pennsylvania recently provided for the use of membership in apportioning state monies for schools. It is

⁹ See Swift, *op. cit.*, ch. XI.

entirely possible that the basic statistic for apportionment in the future will become membership. The attendance measures always had as an objective the improvement of attendance. With the general public acceptance of compulsory attendance, the improvement in the school curriculum, and increased attention to the individual pupil, states will have to give less attention to increasing attendance. Indeed, in states like New York there is evidence that the stress on attendance in state support has sacrificed the welfare of pupils to the obtaining of state funds. We are reaching a point where children sometimes should be encouraged to be absent for their own health and the protection of the health of others. Membership bases are more indicative of budgetary requirements and take the pressure off attendance. They can be weighted as easily as attendance to provide for cost variations.

STATE COLLECTED-LOCALLY SHARED TAXES

The transition from permanent fund apportionment to tax sharing is illustrated by the development of fiscal policy for schools in New York State. The apportionment of the permanent fund income began in 1814. It was distributed to towns according to total population and from towns to school districts according to the number of children between the ages of five and fifteen. For five years, 1851 to 1856, two-thirds of an annual appropriation of \$800,000 was divided among school districts according to the number of children between the ages of five and twenty-one. This was a variable general grant-in-aid. In 1856 a state school property tax at fixed rate was adopted. The rate was changed several times until the state returned to an annual appropriation in 1901. From 1856 to 1901 the predominant fiscal policy for schools was the sharing of the property-tax yield according to the school census. What the schools received annually not only varied according to the local census and total census in the state, but it depended upon the tax yield.¹⁰

TAX SHARING DEFINED

It sometimes is difficult to classify a state fiscal policy for schools at a certain time as one of tax sharing or one of grants-in-aid. Earmarked

¹⁰ A. J. Burke, *A Century and A Half of Financing Locally Operated Functions of Government in New York State* (1947), pp. 17 ff.

taxes for schools sometimes have been subject to appropriation. Many states have had both appropriations and earmarked taxes. Here there may be a combination of the two policies. The grants-in-aid in some states have been fixed in amount, but depend upon earmarked tax sources. Many states have had a number of different school funds deriving revenues from both earmarked taxes and appropriations.

Not all earmarked state school taxes have been shared taxes. (1) Where fixed grants have been fixed by law and the rate of the earmarked tax could be varied to meet the cost of the grants, the policy probably can be classified as grants-in-aid. (2) Where the earmarked tax has been levied at a rate high enough to pay any fixed grants with a substantial balance, then it probably could be said that only the balance is a shared tax. (3) However, when the time comes that the fixed grants have to be reduced due to a reduced tax yield, then the policy becomes all tax sharing. (4) Where the legislature is required to appropriate enough additional funds above the yield of the earmarked taxes to pay the grants provided by law, the policy is not tax sharing. (5) Where the state allocates a percentage of state revenues to schools, even if such funds are appropriated, the policy is tax sharing if the size of the appropriation depends upon the tax yield. (6) Nor does the policy of making appropriations necessarily imply an absence of tax sharing. Delaware, e.g., at one time relied entirely upon earmarked taxes which were appropriated. After apportioning certain grants-in-aid, the balance was apportioned according to enrollment. This was tax sharing, since the amount received depended upon the tax yield and not the appropriation.

PREVALENCE OF TAX SHARING

With the possible exceptions of Connecticut, New Hampshire, Pennsylvania, and Rhode Island, all of the states, particularly during the period of earmarked property taxes for schools, have pursued the policy of tax sharing in school support. Maine, as early as 1833, shared a 1 percent bank tax using the census. The Indiana school laws of 1836 and 1849 provided for allocating a state property tax back to counties of origin. Ohio shared a small state tax in 1838. Later at least thirty-two states or territories prorated the yield of a state property tax

at a fixed rate for schools. Most of them were prorated at least for a period according to the census. New Jersey from 1881 until 1946 returned 90 percent of the state school tax to counties where collected. Tennessee after 1867 returned all of the tax to county of origin. South Carolina shared half its one-mill tax according to source. Minnesota shifted to enrollment as a basis of apportionment in 1875. Washington guaranteed a certain amount per census child providing a certain tax rate would produce this amount. Ohio (1921-1933) allocated its state school tax to counties of origin. Another group of states, at least five, have at some time shared a percentage of all or certain state taxes or resources. From 1868 and 1875 Alabama distributed one-fifth of all state revenues on the school census. Georgia (1919) provided for apportioning 50 percent of state revenues on the census beginning in 1922. Missouri from about 1875 to 1887 allocated 25 percent to schools according to the census; after 1887 this was increased to one-third. Tennessee (1909) also divided a third of state revenues among school districts. Texas schools had a claim on 25 percent of certain state taxes after 1849.¹¹

The remaining states which did not have a shared property tax or a sharing of a percentage of state revenues or taxes for schools later shared nonproperty taxes. (1) Colorado in 1937 provided for sharing the yield of an income tax (later 35 percent of it) with counties for schools. (2) Idaho after 1933 provided part of its equalization fund from a number of earmarked tax sources so that the apportionment varied with the yield of the taxes. (3) After Iowa adopted its homestead exemption law it shared part of the income and sales taxes, according to the value of the homesteads exempted in each county. (4) Massachusetts in 1919 provided for sharing the income tax after meeting certain fixed grants for schools. (5) Montana in 1933 provided for apportioning a share of taxes on natural gas, personal incomes, inheritances, and certain other taxes to schools on the census. (6) North Dakota in 1933 earmarked one-half the sales tax for an equalization fund; subsequently, the fixed grants had to be reduced due to a decrease in yield. (7) Oregon in 1942 shared surplus income tax reve-

¹¹ Cubberley, *op. cit.*; Swift, *op. cit.*; and *Cyclopedia of Education*; supplemented by historical studies in various states.

nues according to attendance and teacher units. (8) South Dakota in 1933 provided for sharing 45 percent of the state income tax according to the census to reduce property taxes. (9) West Virginia in 1902 began to distribute a corporation tax to schools according to the census. (10) Wyoming in 1935 provided that part of the general sales and use tax would be earmarked for the equalization fund, which made the apportionments vary with the yield.¹²

The development of nonproperty state taxes occurred during the period when states were moving toward appropriations and grants-in-aid for schools. Nevertheless, most nonproperty taxes have been shared with school districts in one or more states. Examples of shared nonproperty taxes include the following: Arkansas, Louisiana, and Oklahoma returned one-third of severance taxes to counties of origin for school support. Delaware, Massachusetts, Minnesota, Oklahoma and Wisconsin have shared part of state income taxes. Florida and Montana have shared a gasoline tax. Indiana returned 90 percent of an intangibles tax to counties of origin. New Mexico has shared a motor vehicle tax. Ohio prorated a motor fuel tax, an intangibles tax, and a sales tax according to average daily attendance. Oklahoma shared liquor and sales taxes with school districts. Michigan shared part of its sales tax. New Mexico returned half of the license and occupation tax to counties of origin for schools. Delaware shared its corporation tax with schools. Oklahoma shared an inheritance tax.¹³

TREND AWAY FROM TAX SHARING

Since about 1900 there has been a gradual trend away from tax sharing as a fiscal policy for state school support. As indicated before, there was a temporary increase in tax sharing during the depression years. Some states that had not had tax sharing up to that time for schools adopted the policy as an emergency expedient without full consideration of its implications. Other states with a long tradition of sharing state revenues for school purposes extended the policy to new taxes. However, when the number of states having tax sharing as the major fiscal policy for school support during the nineteenth century

¹² Based largely on National Education Association, *School Finance Systems* (1933-1945).

¹³ *Ibid.*

and early twentieth century is compared with the number having the policy in 1927-1928 or in 1947-1948, it will be seen how far states have moved toward other policies. It has been shown that at least two-thirds of the states or territories had tax sharing for schools prior to 1920—generally as the dominant fiscal policy. By 1927-1928 tax sharing for school support was the major policy in only about ten of the states, but about half the states still had some tax sharing.¹⁴ Among the states in which the policy received the most emphasis at the time were: Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Michigan, New Jersey, and New Mexico.

Tax sharing is the prevailing fiscal policy for schools in not over two states today. New Mexico has made no significant change in policy except to substitute average daily attendance for the census in apportionment (1949). Michigan now apportions the major part of its state school monies as taxes shared according to the school census. In 1948 at least eleven other states, including Alabama, Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, Oregon, Virginia, and Wyoming, probably had some tax sharing for schools.

APPRAISAL OF THE POLICY

Regardless of original intent the policy of state collected-locally shared taxes presumes a minimum degree of state concern over public education and its financing. Although the policy in many cases was adopted to promote the maintenance of minimum educational service levels and the equalization of local tax burdens, the policy does neither. Able districts theoretically receive the same treatment as fiscally weak districts under the per-capita distribution which if true means inequalities in opportunities for schooling. Differences in fiscal capacities are just as great under tax sharing as they would be without it. Actually, the distribution tends to be in proportion to wealth since population density and wealth tend to go together. The amounts received annually by all school districts are variable and unpredictable. The amounts to be received therefore are not subject to careful budgeting. They may create balances, deficits, or careless spending. They

¹⁴ Swift, *op. cit.*, pp. 127, 134, 138, 140, and 186-187.

broaden the local tax base in all school districts, but do little to correct local tax inequalities resulting from state mandates and minimum requirements. The policy in effect assumes that education is primarily a local responsibility. State requirements cannot be enforced in extremely poor localities under the tax-sharing plan.

The policy of sharing permits the use of crude methods of apportionment such as the school census. All that is required is a prorating device. Since the amount to be paid to a school district is a variable anyway, subject to the tax yield, the use of refined measures does not overcome the basic weaknesses in the policy. There is no way of adjusting the apportionment to fiscal need under tax sharing.

One of the most serious consequences of tax sharing has been the retardation of equalization programs. Under shared taxes rich and poor districts generally receive equal per-capita grants. Often the wealthy districts received a greater proportion of the tax than the poor because of greater population density or sharing according to source. In order to attain support for equalization aid, provision had to be made for guaranteeing general aid to wealthy districts at least equivalent to what they had received under tax sharing. The amount of state support required for the general grants-in-aid often restricted what states could do to bring about a satisfactory level of equalization.

The policy of tax sharing is subject to many limitations, but it had one great advantage when applied to nonproperty taxes—adjusting to changed levels of income. Shared taxes may decrease when school districts are faced with property tax difficulties. On the other hand, the amount received from many shared taxes automatically increases with improved economic conditions and provides revenue for meeting rising prices or salary and wage demands resulting from higher prices. The property tax has been shown to be slow to adjust to economic changes. As a source of revenues for local initiative, some tax sharing might be justified; but equalization requires grants-in-aid adjusted to changed price levels as will be shown in Chapter XII.

PROPERTY TAX REPLACEMENT APPORTIONMENTS

When certain states changed their fiscal policies from stimulating local property taxation to restricting it, tax sharing and even grants-

in-aid were earmarked for property tax reduction or for replacement of property tax losses resulting from state action. The earliest apportionments of this type were to compensate local units for nontaxable property as illustrated by Connecticut, New Jersey, and South Dakota. Connecticut until recently had a grant of \$35 a pupil a year for children residing on tax-exempt state property. When New Jersey removed railroads and canal companies from the local tax rolls in 1906, the state provided for prorating the state taxes on such companies among counties according to assessed valuation for school support. South Dakota for a long time has assisted districts with nontaxable Indian lands and nontaxable indemnity or endowed lands.¹⁵ The policy was greatly liberalized in 1941 with a much larger appropriation for "Tax Base Depletion Acres."

Tax sharing or grants-in-aid earmarked for local property tax reduction or for replacement of property taxes lost by state action do not increase support for schools. They simply represent a shift from one tax base to another. The use of shared taxes or grants for such purposes increased during the decade of the 1930's when states adopted drastic property tax limitations and increased property tax exemptions. Shared state taxes for schools in states like Colorado, Iowa, New Mexico, Oklahoma, Oregon, and South Dakota after 1933 were earmarked for local property tax reduction. Maryland in 1934 appropriated \$1.5 million to reduce local property taxes for schools. Although other types of shared taxes or grants-in-aid might involve such a shift, they generally can be used for increasing expenditures where this is necessary.¹⁶

VARIABLE GRANTS-IN-AID

Some states in providing appropriations for school support did not make a radical change in policy. The same per-capita methods of apportioning shared taxes were applied to grants-in-aid, making them a variable depending upon the size of the appropriation and the number of pupils. For example, Illinois shared a two-mill state school property tax levy on a per-capita basis from 1855 until 1872. From 1873 until

¹⁵ Swift, *op. cit.*, p. 199.

¹⁶ National Education Association, *School Finance Systems* (1933-1937).

1910 an annual appropriation of \$1 million was substituted. This was apportioned on the same basis as before—the school census. Although the appropriation was increased to \$8 million by 1921, the same method of apportionment was used until 1923. Since then, fixed grants-in-aid have been provided.¹⁷

BACKGROUND

Variable grants-in-aid never have been as prevalent as shared taxes for schools. Appropriations for schools have been a relatively recent development in most states, and the movement toward appropriations has been accompanied by a trend toward fixed grants. Nevertheless, variable grants-in-aid existed in some states very early. From 1795 to 1800 New York State appropriated \$50,000 a year which was apportioned according to population. Beginning in 1828 Rhode Island appropriated \$10,000 a year apportioned according to the census. New Jersey in 1829 appropriated \$20,000 a year apportioned among counties according to property valuation. Pennsylvania began to appropriate \$75,000 a year for schools in 1831, but apportioned the money according to taxable wealth. Ohio in 1842 apportioned a \$150,000 annual appropriation on a per-capita basis.¹⁸

In the southern states appropriations were more common during the nineteenth century than in the rest of the country. South Carolina during the nineteenth century and until 1933 apparently relied upon state appropriations and the yield of half its state mill tax for whatever support was provided. After the Civil War it used enrollment for apportioning aid, but the amount provided depended upon a prorating of the appropriation for a long time. Georgia provided for annual appropriations from 1858 until about 1922, generally relying upon the census for apportionment. Mississippi (1890) and North Carolina (1899) provided for prorated appropriations. Alabama apportioned variable grants-in-aid from 1854 to 1868 and returned to the policy from 1875 to 1901. Florida, Virginia, and West Virginia also had appropriations prior to 1900 apportioned as variable grants-in-aid.¹⁹

¹⁷ O. F. Weber and T. E. Benner, *The Problem of School Organization and Finance in Illinois* (1938), pp. 50–51.

¹⁸ *Cyclopedia of Education* under individual states and historical studies for various states.

¹⁹ *Ibid.*

Pennsylvania and Rhode Island have consistently pursued the policy of appropriations and have had variable grants-in-aid for long periods in their history. In Rhode Island the appropriation of \$10,000 a year in 1828 was followed by a \$50,000 appropriation in 1854. This was raised to \$90,000 in 1872 and \$120,000 in 1883, but the census basis of apportionment for at least part of the appropriation continued after 1910. Pennsylvania began with a \$75,000 annual appropriation in 1834, increasing it to \$1 million in 1873. This amount remained unchanged for decades. However, in 1897 the manner of apportionment was changed from wealth as the sole measure to one-third on wealth, one-third on the number of teachers, and one-third on the number of children. In 1911 the basis was changed to one-half on teachers and one-half on the school census.²⁰

PRESENT STATUS

In 1947-1948 six states had variable per-capita grants-in-aid as a major policy in public school finance (Colorado, Kentucky, New Jersey, South Dakota, Virginia, and Wyoming). The largest appropriation for schools in Colorado was divided according to aggregate attendance (average daily attendance, 1949). About 90 percent of the appropriation for public schools in Kentucky has been apportioned according to the school census since 1934, when appropriations replaced shared taxes. New Jersey (1948-1949) apportioned most of its funds as variable grants-in-aid combined with a small fixed grant, using weighted attendance. South Dakota prorated most of its appropriations for schools by census, enrollment, and number of teachers. Virginia apportioned most of its school appropriation according to weighted average daily attendance. Wyoming apportioned most of its state monies according to the census, number of teachers, number of teacher units, and number of bus drivers. Mississippi still apportioned nearly 50 percent of state school support according to the census. Another small group of states, e.g., Arkansas, New Hampshire, and Wisconsin, had a part of their state school monies apportioned as variable grants-in-aid.²¹

²⁰ E. P. Cubberley, *State School Administration* (1927), p. 431.

²¹ National Education Association, *School Finance Systems* (1947-1948). New Jersey is for 1948-49.

APPRAISAL OF THE POLICY

Variable grants-in-aid, like shared taxes for schools, presume a relatively low degree of state concern for public education and its financing. They are subject to the major disadvantages of tax sharing. They are unpredictable, not subject to careful budgeting, and permit crude methods of apportionment. They do not enable all districts to meet state mandates with a reasonable local tax effort. They have little value in reducing educational or tax inequalities.

Worse yet, variable grants-in-aid do not have the one advantage of tax sharing, namely, flexibility. Such appropriations have been continued in the same amount for decades while school population and the price level were rising. Illinois had the same annual appropriation for school support from 1873 until 1910; Pennsylvania also had the same appropriation for decades after 1873. The result has been that the variable grants have had a greater tendency to decrease in amount with rising population than have shared taxes. It should be noted, however, that the recent experience of Mississippi indicates that this generalization may not hold true today. Mississippi has increased its appropriations between 1940 and 1948 more than the average for the country. Kentucky was somewhat below the average in its adjustment.²² Yet, all of the states in this group could attain a more adequate level of equalization support by deemphasizing variable grants.

FIXED PER-CAPITA GENERAL GRANTS-IN-AID

Many states have had grants in general aid, the amount of which are specified by law. Some of these have been apportioned on district, school, or teacher bases; and are in fact a crude type of equalization grant, as will be seen in the next chapter. These will not be included in this section, which is limited to per-capita fixed grants. Moreover, some of the fixed grants per capita have evolved into completely state-supported equalization programs. States with relatively large per-capita apportionments will not be included here.

Fixed general grants-in-aid require a state to make the appropriation necessary to pay the grants, to levy a tax or taxes at variable rates,

²² J. K. Norton and A. J. Burke, *The Potentialities of the State Tax System in the Financing of Public Schools in New York State* (1947), p. 18.

or to supplement by appropriation, if necessary, the yield of earmarked taxes at fixed rates. Sometimes, a state can pay fixed grants with earmarked taxes if the yield always exceeds the amount required to meet the grants.

ORIGINS

California, Connecticut, Ohio, and Washington were pioneers in providing fixed per-capita general grants-in-aid for schools. California in raising the rate of its county school tax for schools in 1864 provided that no county should raise less than \$2.00 a census child. In 1874 the same principle was applied to the state school tax, the rate of which was to be varied to produce \$7.00 a census child (elementary). By 1905 it had been increased to \$17.50 an elementary child and \$15.00 a high-school child,²³ and remained at this level until 1920. In 1871, Connecticut appropriated fifty cents per census child (ages 4-16) above the income of the permanent fund. In 1872 this was raised to \$1.50 a pupil and in 1897 it was increased to \$2.25 (including permanent fund income) at which figure it remained for half a century. Whereas in 1897 the grant represented a substantial part of the annual expenditure per pupil, by 1947 it had become an insignificant source of revenues.²⁴ In 1900 Ohio had a provision for a state school tax which would produce \$1.45 a census child; this was increased gradually to \$2.00 by 1910. This type of grant continued until 1920.²⁵ Washington in 1895 adopted a guarantee of \$6.00 a pupil, raising it to \$8.00 in 1899, and to \$10.00 in 1901.²⁶ New Jersey provided for a state school tax of \$4.00 a pupil from 1881 to 1888 and \$5.00 a pupil from 1888 to 1901, but apportionment according to wealth really made it a shared tax.

The fiscal difficulties of school districts resulting from postwar inflation caused more states to adopt fixed general grants-in-aid after 1920. That year Utah provided state support equal to \$25 an elemen-

²³ E. P. Cubberley, *State School Funds and Their Apportionment* (1905), pp. 228 ff.

²⁴ Helen M. Walker, *The Development of State Support and Control of Education in Connecticut* (1926), p. 57.

²⁵ From an unpublished report by B. A. Stevens of the Ohio Education Ass'n.

²⁶ Washington State Planning Commission, *A Survey of the Common School System of Washington* (1938), p. 72.

tary pupil; and California increased its grant from \$17.50 an elementary pupil to \$30 a pupil. Washington raised its guarantee from \$10 to \$20 per child of school age. The following year Arizona adopted a provision for state support not less than \$25 a pupil in average daily attendance; and Maine provided a grant of \$3.00 a pupil. Illinois (1923) abandoned variable grants for a fixed grant and equalization.²⁷ The practice gradually spread after that.

STATUS TODAY

Half the states in 1947-1948 has some fixed per-capita general grants-in-aid for schools. It was the dominant policy in at least ten states: Arizona, California, Connecticut, Illinois, Iowa, Kansas, Louisiana, Minnesota, Ohio, and Texas. However, for reasons given in the next chapter, Arizona, California, and Connecticut will be classified as state-supported equalization programs. Illinois, Kansas, and Texas shifted to an equalization policy in 1949. Among the other states which had some grants of this type in 1947-1948 are Arkansas, Maine, Maryland, Missouri, Montana, Nevada, New Jersey, New York, North Dakota, Oklahoma, Oregon, Rhode Island, Tennessee, and Washington. North Dakota (1950) adopted fixed grants.

Most of the states which have stressed this policy have not provided adequate levels of support for schools. In 1948 Illinois allowed from \$7.00 to \$22.00 a pupil in average daily attendance and Kansas from \$5.00 to \$25.00 a pupil enrolled. Iowa in 1949 increased its allowance (17 and 20 cents per day of attendance in elementary and secondary schools). Louisiana provided \$30 a census pupil. Minnesota raised its allowance to about \$65 a pupil in average daily attendance in 1949. Ohio allowed from \$53 to \$64 a pupil in average daily membership. Texas (1948) provided \$55 a census pupil.²⁸

APPRAISAL

Per-capita grants-in-aid for general school support which are fixed in amount meet the objections to unpredictable grants. They can be budgeted in advance and make it possible to estimate more accurately

²⁷ Swift, *op. cit.*, pp. 112 ff.

²⁸ National Education Association, *School Finance Systems* (1947-1948) and 1949 statutes.

the amount of revenues that must be raised locally. Otherwise, they are subject to most of the limitations of tax sharing or variable grants-in-aid. Their main effect is to broaden the local tax base, but in so doing they favor the densely settled, wealthy districts unless the attendance is weighted for sparsity. The degree to which they compensate for lack of local fiscal capacity depends on the amount of the grants relative to the cost of a satisfactory school program and the method of apportionment. Where they are relatively small and apportioned on any raw per-capita basis they have very little equalizing effect. Where they are relatively large and apportioned by refined methods, they may involve considerable equalization. Yet they involve a large state outlay without achieving the highest attainable service levels in the fiscally weak districts. They presume services varying with local fiscal capacity and interest.

The chief advantage of fixed grants to all local school systems regardless of fiscal ability is the freeing of local initiative in the able units. The tax leeway created makes these schools adaptable and able to expand their services. This provides a powerful stimulus for improving the programs in the less able districts. Furthermore, as will be shown in Chapter XIII, this method of providing assistance for able districts is less costly to the state than using an equalization formula as a means of channeling state-collected taxes back to the able communities. Used in combination with an adequate equalization program, the policy has the foregoing two advantages.

The movement toward fixed per-capita grants is motivated by considerations of stability and predictability. Since the fiscal policy presumes broadening the local tax base for local initiative in all districts, regardless of fiscal ability, as an important objective, it is questionable if the policy is to be preferred over the policy of tax sharing or the granting of additional taxing powers (nonproperty taxes) to school districts. The property tax base is a most stable tax base. What local initiative really requires is a tax base more responsive to economic trends. Although fixed grants to all school districts tend under certain conditions to release property taxing power, the leeway is still limited by the nature of the tax. In any case, none of these policies is defensible in a state that has not achieved a reasonably satisfactory equaliza-

tion program. Ohio, for illustration, restricted by tax limits, has emphasized general support at the expense of equalization. California until recently was in the same class except that it did not have such restricted local taxing powers.

Except where fixed grants of general aid have evolved into completely state-supported equalization programs, the policy presumes a relatively low extent of state concern for public school finance. The per-capita grants tend to be regarded as supplemental assistance with the primary responsibility for support left to local taxation. On the other hand, the small grants can be used to enforce state requirements and they have been so used. The degree of state control is not relative to the amount of support provided. Massachusetts has exercised a high degree of control with a small amount of state support. California has allowed a high degree of local freedom with a large amount of state support.

PER-CAPITA APPORTIONMENTS AND LOCAL INITIATIVE

Since taxes shared on a per-capita basis and per-capita grants-in-aid tend to go to the densely settled, wealthier local units of government, theoretically, at least, such apportionments should foster local initiative. There is little correction for lack of fiscal capacity in the sparsely settled, poorer units and the spending ability of all units is increased proportionately to their wealth.

About a third (about a fourth, 1949-50) of the states stressed these policies in 1947-1948—Colorado, Illinois, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, Ohio, South Dakota, Texas, Virginia, and Wyoming. All of these had wide variations in expenditure levels among districts except New Mexico, which has a considerable degree of county equalization and restricts local taxing power. In spite of the wide variations in support, less than half of the states in this group had any well-supported schools—only Illinois, Michigan, Minnesota, New Jersey, Ohio, and Wyoming. Michigan and Ohio do not have schools supported as well as those in New Jersey because of drastic local tax limits. Colorado, Iowa, Texas, and Virginia at least approached adequacy at the upper level, which should stimulate improvement. Kansas, Kentucky, Loui-

siana, Nebraska, New Mexico, and South Dakota had no school systems supported at an adequate level. This is due to a combination of low economic ability and restrictions on local initiative.²⁹

All of these states have poorly supported schools that can be improved only by state action. They must move toward more adequate levels of equalization support. Local initiative in many of them is not a potent force for improvement either because of poverty or restrictions on local taxing power. Present methods of per-capita tax sharing or apportionments do not compensate for the lack of local taxing power or other restrictions on local initiative such as tax limitation in Michigan and Ohio and tax limitation plus budgetary review in New Mexico. Certainly, Illinois, Michigan, New Jersey, and Ohio, and possibly Colorado, Iowa, Minnesota, and Wyoming, can afford to continue present policies and at the same time put more emphasis upon equalization. The others cannot afford to keep equalization at meager levels in order to maintain present policies. To continue them promotes neither equalization nor local improvement through local initiative. Illinois, Kansas, and Texas in 1949 shifted to equalization as a major policy. Although most of the other states have supplemental equalization programs, most of them are inadequate. These states probably would secure greater improvement through a leveling up of equalization support as is being done in Louisiana through its supplemental equalization program described in Chapter XII. They would then be in a position to take on many of the adaptations discovered and perfected in the well-supported schools of other states. Of course, federal support will be essential in many of them to attain a level of equalization that will pay social and economic dividends.

SUMMARY

Shared taxes for schools and per-capita grants-in-aid have been associated with the crude means of apportionment used in distributing permanent fund income. The policies have had the limitations of both the crude methods of apportionment and the policies themselves. Both policies presume education to be primarily a local function with supplemental assistance from the state. Both do little to correct inequali-

²⁹ National Education Association, *Still Unfinished* (1948), pp. 9 ff.

ties in educational opportunities resulting from unequal local taxpaying ability.

Census, enrollment, and attendance measures not corrected for variables affecting school expenditure levels tend to aid the densely settled districts which generally have relatively high fiscal ability. They fail to apportion sufficient revenues to sparsely settled areas with necessarily higher unit costs and low fiscal capacity. The use of crude means of apportionment tends to approximate the policy of tax sharing according to source. Although the trend is away from crude methods of apportionment, vestiges remain in most states and in some states they are still used extensively.

Tax sharing at one time was the dominant policy in state support for schools, but it has disappeared in most states. The variable and unpredictable nature of shared taxes did not foster stability and prudent financial management. Their chief virtue has been in providing a flexible source of revenues during an inflationary period. In actual operation they do not differ greatly from the variable grants-in-aid which replaced them in some states. The chief difference is that the grants are based upon an appropriation rather than upon tax yield and are not quite so variable or flexible. Fixed per-capita grants, still a very common policy, have the advantage of predictability. Otherwise, they are subject to the limitations of variable grants. Like shared taxes they supplement local resources in all communities and thereby increase the ability of the fiscally able districts to exercise initiative.

READINGS

Bittermann (5), chs. VIII and XVIII; Cubberley (37), ch. XVII; Cubberley (38); Hutchinson (86); Mort (111), ch. IV; National Education Association (130); Pittenger (149), ch. XI; Swift (171), chs. XI-XII.

CHAPTER XII

Completely State-Supported Equalization Programs

For over a century states have recognized that many school districts did not have the taxpaying ability to provide an acceptable minimum educational program, or to comply with state minimum requirements. They soon discovered that per-capita state assistance did not correct the fiscal weaknesses of sparsely settled districts. The old district, school, and teacher quotas were crude attempts to equalize financial support and local tax burdens for elementary schooling in small common-school districts. Out of these early devices evolved completely state-supported equalization programs and the more common pattern of equalization programs supported by a combination of state and local taxation.

The distinctive characteristics of a state-supported equalization program are (1) a relatively high degree of state concern for education often expressed in minimum requirements or standards, (2) state recognition of the financial implications of state concern or mandates, (3) minimum state-support allowances established to finance a minimum program in all districts, (4) methods of apportionment which allow for major variations in the cost of the program among communities, (5) apportionment of the grants to all districts regardless of taxpaying ability, and (6) permitting all local taxing power or local taxation to be used to exceed or supplement the state program. Under such a program the state assumes the support of a basic, minimum, or foundation program in all localities. The center of gravity for financing the minimum educational offering is shifted to the state. The con-

cept of state aid to supplement local revenues is replaced by the concept of local support to supplement basic state support.

EARLY EQUALIZATION PROGRAMS

Connecticut was one of the first states to apply the equalization concept in public school finance. In the attempt to enforce a minimum school term of four months, a law was passed in 1841 to assure every district a minimum apportionment of \$50 before any per-capita distribution was made. Thus, every small district was assured a minimum amount to employ a teacher regardless of the number of pupils or the amount of taxable wealth. This plan remained in effect with some changes in the amount guaranteed until 1870. It was a factor in enabling Connecticut to abolish rate bills in 1868 without creating an excessively heavy local tax burden.¹

The evolution of equalization policy is well illustrated by New York. In 1851 New York State was forced to recognize the equalization principle in its attempt to make its schools tuition-free. Its free school law of 1849 required every school district to provide free instruction for all of its residents between the ages five and twenty-one for at least four months annually. To finance this program the county and the town each were required to raise an amount equal to their state apportionments for common-school support. State funds were apportioned to counties on the basis of total population. County funds were apportioned to towns on the basis of total population. Town funds were apportioned to school districts on the basis of the number of persons between the ages of five and sixteen. Any balance required to support schools for four months had to be raised by school district tax.²

The act failed in the rural districts where state, county, and town funds were not sufficient to equalize the local tax burden. The rural counties, being sparsely settled, received relatively little state aid. Nevertheless, in low-valuation counties and towns especially, the requirement to match state aid meant high tax rates to raise relatively small amounts of taxes. The expenses of operating a school for four months

¹ H. M. Walker, *The Development of State Support and Control of Education in Connecticut* (1926), pp. 41-48.

² Laws 1849, ch. 140.

required a certain minimum amount of money regardless of school population. Since state aid and county and town revenues were low for sparsely settled districts, the amount to be raised by tax was relatively high. This often meant very high school district tax rates in addition to high town and county taxes on the same property for the support of schools.

The equalization principle evolved from this experience was stated as follows: "If the property of the state is required to support the education of the state, it follows that the benefits received by it being everywhere the same, its burdens should in like manner be the same."³ The state must "produce the concurrent results of everywhere equal taxation and everywhere equal facilities for education."⁴

To put the equalization principle into effect the legislature in 1851 provided that one-third of the public money was to be divided equally among the school districts.⁵ Thus, a sparsely settled district with little taxable wealth was assured a minimum district quota to operate a school for a minimum term of six months regardless of wealth or population. The district quota did much to equalize support and tax burdens in one-teacher districts.

The application of the equalization principle was further refined by the introduction of a teacher quota. This assured a definite amount for each teacher and equalized support not only in one-teacher districts, but also in districts with more than one teacher. In 1864 the law provided that one-third of the public monies should be divided among the districts according to the number of teachers.⁶ The next refinement in the teacher quota came in 1890 when the amount provided for each teacher was made a definite guarantee of \$100 per teacher.⁷ It remained at this figure until 1919 when it was increased by \$100, known as an additional teacher quota.⁸ After 1920 the teacher quotas were increased several times until they were repealed in 1930.

When Illinois enacted its two-mill state school tax in 1855 it used the same device that New York had introduced in 1851. Two-thirds

³ *Annual Report of Superintendent of Common Schools, 1853.*

⁴ *Ibid.*

⁵ Laws 1851, ch. 151.

⁶ Laws 1864, ch. 555.

⁷ Laws 1890, ch. 534.

⁸ Laws 1919, ch. 645.

of the tax yield was to be shared with counties according to the school census. The other third was shared by dividing the money equally among the townships in the counties. This provision remained in effect until 1872.⁹ Massachusetts in 1866 provided a town or city quota of \$75 which was raised to \$100 in 1869. It remained at this figure until 1874 when the grant was discontinued except for low-valuation units.¹⁰

OTHER EARLY ATTEMPTS AT EQUALIZATION

At the time of Cubberley's study (1905), over a fourth of the states had made beginnings toward crude state- and county-supported equalization programs for elementary schools. The state generally apportioned its funds to counties on a per-capita basis and required counties to provide the quotas. Idaho and Nebraska were using a device similar to the 1851 plan in New York. Arizona required counties to allocate \$400 to a district with a school census of ten to twenty pupils and \$500 to a district with over twenty pupils. California in 1905 began to apportion \$250 for each teacher allowed by the county superintendent of schools, one teacher being allowed for every seventy census pupils. Delaware used the number of teachers in prorating. Minnesota (1895) allowed \$200 for each graded elementary school and in 1899 \$75 was provided for each one-teacher school and \$100 for each semigraded school. Nevada allowed one teacher for each 75 census pupils and counties had to divide 40 percent of the state support among districts according to the number of teachers so determined. New Jersey in its county apportionment allowed \$200 a teacher. Oregon required counties to give a quota of \$50 per district (note the Connecticut influence). Pennsylvania (1897) divided one-third of its appropriation among districts according to the number of teachers. Rhode Island (1894) began to provide its school or teacher quotas. Vermont distributed most of its aid according to the number of schools. Washington allowed 2000 days of attendance to every district regardless of size in making its apportionment. Wyoming had counties provide a district quota of \$150.¹¹

⁹ L. H. Weaver, *School Consolidation and State Aid in Illinois* (1944), p. 24.

¹⁰ E. P. Cubberley, *State School Funds and Their Apportionment* (1905), pp. 210-211.

¹¹ *Ibid.*, pp. 175 ff.

Many of the early schemes were not pure state-supported equalization programs. (1) State and county support often were intermingled, the county provisions frequently being the most significant. However, these eventually become matters of state policy. (2) Some of the grants had the characteristics of subventions (special aids to promote state purposes). Cubberley looked upon teacher grants as a means of stimulation as well as equalization. The school grants in Minnesota and most of the high school grants fall into this classification. However, inasmuch as the grants summarized above were not associated with local matching, they tended to have a moderate equalizing effect. They did not gravitate to the wealthy districts to the degree that subventions based upon matching did.

CONTRIBUTIONS

The early equalization schemes attempted to provide a minimum amount of support for each district, school, or teacher on the theory that a minimum amount of money was required to employ a teacher and operate a school for a minimum term regardless of enrollment. Unless the state provided the minimum support from state or county sources very high local tax rates or failure to meet minimum requirements followed. Some of these schemes failed in their equalization objective because they depended upon tax sharing or variable grants-in-aid, e.g., in Delaware, Idaho, Nebraska, Nevada, New York, and Pennsylvania. Others failed to adjust the amount of the fixed grants for decades, e.g., New York. As a result the grants no longer provided a minimum amount of support and they tended to benefit the wealthy districts most. Furthermore, the schemes often were conceived in terms of elementary schools, small districts, or small schools. With population growth some of the fiscally weak districts in states became relatively large. The high school became an accepted part of the public school program.

These schemes made very important contributions to equalization concepts. (1) It was learned that equalization grants must be fixed in amount and adjusted from time to time to changed economic conditions if support was to be sufficient to maintain state minima without burdensome local taxes. (2) It was learned that the methods of apportionment must take into account the effects of population sparsity

on per-pupil expenditures. The weighted attendance device in Washington became the forerunner of the refined methods of apportionment required for equalization. (3) The district and the school as means of apportionment became outmoded with population growth and the growing insignificance of the one-teacher district. (4) The teacher as a basis of apportionment was found to be more adaptable to larger districts, but it was later found to be subject to serious limitations. As a result, it was often related to some pupil measure using refinements of the weighting device developed in Washington and the schemes used in California and Nevada.

SPREAD OF CRUDE EQUALIZATION PROGRAMS

After 1905 crude methods of apportionment which achieve a moderate degree of equalization through state money alone continued to spread. The movement was stimulated by Cubberley's influence, early studies of state school financing, and the dissemination of information on state school fiscal policies and practice. Even after they had accepted more refined methods of equalization, many states retained vestiges of crude equalization programs; and others adopted crude equalization programs long after improved techniques had become available. Their very simplicity has had a great appeal to legislative bodies.

CUBBERLEY'S INFLUENCE

Cubberley in his study completed in 1905 stressed the importance of using the number of teachers as well as attendance in distributing general state assistance for schools. In his later writings he stressed this method of apportionment. His ideal plan consisted of per-capita apportionments and (1) teacher grants, e.g., \$250 an elementary teacher, \$275 for intermediate-grade teachers, \$300 for high-school teachers, supervisors, and administrative officers; (2) school grants, e.g., \$100 for each year of high school and allowances for other types of schools;¹² and (3) additional aid for the weakest districts. Cubberley's findings apparently had a profound effect upon other school-finance students as revealed in the state survey reports that followed,

¹² E. P. Cubberley, *State and County Educational Reorganization* (1914), pp. 106 ff.

e.g., Ohio (1907), Maryland and Wyoming (1916), Arizona and Colorado (1917), South Dakota (1918), Alabama, Delaware, and Virginia (1919).

NATIONAL SUMMARIES

The widespread interest in state school finance after Cubberley's study led to a periodic reporting on finance policies and practices in the various states. In 1915 the United States Bureau of Education published two summaries of state apportionment plans. These surveys showed that some variation of the crude types of flat grant equalization, either state-supported or supported by state and country, had been introduced into over half the states.¹³

The following year Butterworth made the first comprehensive study of state aid for high schools. Basing his study upon 1915-1916 statutes, he found that at least thirteen states had adopted state aid programs for high schools somewhat similar to the plan proposed by Cubberley. These included Alabama, Maryland, Minnesota, Missouri, New Jersey, New York, North Carolina, North Dakota, Pennsylvania, South Carolina, Virginia, Washington, and West Virginia. Six other states had apportionment plans which provided a crude type of state-supported equalization for high schools: California, Idaho, Louisiana, Oregon, Rhode Island, and Tennessee.¹⁴

After 1915 apportionments by teachers, schools, or districts became part of the fiscal policy in a number of other states: Illinois (1923-1927), Maine (1921), Massachusetts (1919), Pennsylvania (1921), and Wyoming. Later the policy spread to Colorado, Kansas, South Dakota, and Utah.

CURRENT STATUS

Crude state-supported programs of the Cubberley type have not yet disappeared. In 1948 the policy was dominant in North Dakota and Rhode Island. The policy was important in Washington and vestiges of it were still found in Maine, Maryland, Missouri, South Dakota,

¹³ *Bulletin* No. 47, 1915, and No. 22, 1915.

¹⁴ J. E. Butterworth, *Problems in State High School Finance* (1918), pp. 8-10 and 30 ff.

and Tennessee. North Dakota allowed \$250 to \$450 a teacher with certain per-pupil allowances. Rhode Island allowed \$600 a teacher for salaries plus school grants of \$150 to \$300.

LIMITATIONS

The limitations of district and school quotas were discussed in the preceding section. Crude, state-supported equalization devices utilizing the number of teachers employed are superior in many respects to per-capita apportionments, but they, too, have been found to contain serious weaknesses. First and most important, the method tends to become "reward for wealth." Fiscally able districts that can afford low pupil-teacher ratios tends to receive the greatest benefits. This counteracts the equalizing effects of the grants. Second, this means that the state is not supporting the same program in all districts. The program supported increases with the wealth of the unit receiving the aid. Third, the fact that all districts receive them and the fact that they stimulate low pupil-teacher ratios tend to keep the amounts guaranteed at a low level. Thus, there is not as high a level of equalization as there would be otherwise. Fourth, the grants frequently have been associated with the enforcement of state requirements or the attainment of higher standards. Unless grants are sufficient to cover the cost of the undertakings, they tend to go to wealthy districts. Fifth, they tend to be associated only with teachers' salaries and not the total cost of an educational program. This tends to increase inequalities in the local burden of supporting state mandates or requirements. Sixth, they handicap attempts to secure a more defensible equalization in the future. The necessity of protecting the former aid of wealthy districts tends to hold down the level of equalization attained for all districts.

States with crude state-supported equalization programs usually finance a program that is no longer realistic in terms of modern economic conditions. They do not assure enough to employ the minimum teacher alone. In most states today at least \$2000 is necessary to employ a college graduate without teaching experience. North Dakota's grant of up to \$450 a teacher would not employ any kind of a teacher; nor would Rhode Island's \$600 a teacher.

THE FOUNDATION PROGRAM CONCEPT

It has been seen that states for over a century have been seeking a plan of state school support which would assure every district enough money to operate schools for a minimum term, to employ properly certified teachers, or to pay a minimum teacher's salary. Some states attempted to accomplish this purpose by applying more refined methods of apportionment to shared taxes or prorated appropriations, but unpredictable and variable apportionments did not achieve the end sought. So attention became centered upon various devices for providing a minimum amount of support for the operating unit as a whole, the school, or the teacher. However, the early equalization schemes were developed for very primitive or simple operations—they presumed one-teacher schools and a rudimentary elementary-school program. As school systems became larger and more diversified, as school programs became more diversified and complex, and as expenses other than regular classroom teachers' salaries became more important in the school budget, the determination of cost allowances for equalization purposes itself became complex.

CLARIFICATION OF POLICY

Until about 1920 state fiscal policies for schools could be characterized as combinations of tax sharing, variable grants-in-aid, special aids, fixed per-capita general grants-in-aid, and a variety of crude equalization devices. One policy was counteracting another. Even states that had made crude beginnings toward equalization had not clarified their policies and the implications of their practices. Although over 80 percent of the states in 1920 placed primary responsibility for school support upon local government and many were stimulating local taxation by various means, three-fourths of the states had placed limits upon the taxing powers of school districts.¹⁵ These restrictions represented a lack of faith in local government, restricted the operation of home rule, and nullified state efforts to stimulate local taxation and the shifting of the burden of support to localities. When it

¹⁵ Mabel Newcomer, *Financial Statistics of the Public Education in the United States, 1910-1920* (1924), pp. 158 ff.

was realized that differences in fiscal capacities precluded complete or substantial local support for schools in all units of government, the policy generally became one of piecemeal corrections for the weakest districts. No state had yet attempted to apply the concepts developed for financing schools in the weakest districts to the financing of schools throughout the state—namely, the assuring of a minimum amount of support in every district from state sources alone, or from state support combined with a uniform local tax effort in all districts.

A number of developments occurring after 1920 brought about a clarification of state policy in the support of schools. They centered attention on the financing of a state minimum program and the releasing of local taxing power for local initiative. This objective became the foundation of all fiscal policy for schools in an increasing number of states. (1) Delaware (1921) created a state unit to provide a state minimum program through state support without taking away local taxing power or using any of it to support the state program. (2) Maryland (1922) adopted a state minimum salary schedule. The cost of this schedule in each district plus a fixed percentage of this cost for other current expenses was to be met from state sources where a prescribed uniform local tax would not raise the amount required in any district. Although the state used some local taxing power to finance the state minimum program, it freed the local tax base of a large part of the former burden of supporting the minimum. (3) New York State (1925), guided by the findings of Strayer, Haig, and Mort, made equalization its primary objective in state school support. The state guaranteed enough support to meet certain unit costs where a very low uniform local tax would not raise these amounts. Strayer and Haig, after reviewing the heterogeneous and conflicting fiscal policies of New York State, concluded that the state should adopt equalization as its basic policy. They pointed out that equalization required a state "(1) to establish schools or make other arrangements sufficient to furnish the children in every locality within the state with equal educational opportunities up to some prescribed minimum; (2) to raise the funds necessary for this purpose by local or state taxation adjusted in such a manner as to bear upon the people in all localities at the same rate in relation to their taxpaying ability; and (3) to provide ade-

quately either for the supervision and control of all the schools or for their direct administration by a state department of education."¹⁶ As a result of these three developments, the definition of a state basic, minimum, or foundation program gradually became the focal point in attacking the financing of all schools in many states. Such programs were not conceived only in terms of districts burdened with heavy taxes, levying the maximum permissible tax rates, or not able to maintain state minimum requirements as Cubberley had conceived equalization and as so many states had attempted to apply it prior to 1920 (See Ch. XIII).

Strayer and Haig recognized that the logical outcome of the equalization concept was complete state control, support, and operation of schools.¹⁷ They were concerned with preserving the advantages of the decentralized structure while at the same time promoting equalization. Their compromise was to free local taxing power for local self-government by enabling all districts to finance state minimum offerings with a very low local tax rate. This policy, like that of Delaware and Maryland, was the direct opposite of that adopted about the same time in North Carolina. North Carolina adopted a state minimum salary schedule like Maryland, but provided state support only where the maximum local tax levy permitted would not finance a six-months' term. The state cornered a large part of the local tax for state purposes, thereby hampering the exercise of home rule. Many districts were left no tax leeway for local adaptations.

The equalization concept as viewed by Strayer and Haig did not subordinate local control to state concern. The state became responsible for a minimum offering in all localities representing the interest of all the people with education, but the localities were to be free to add as much as they desired and could afford. Thus, equalization became a lever for releasing local initiative that had been bottled up by traditional policies and practices. Able districts in particular were permitted to set the pace, but no district was held to a uniform level of offerings as it would be under complete state support and operation. The inequalities created by able districts forging ahead pro-

¹⁶ G. D. Strayer and R. M. Haig, *The Financing of Education in the State of New York* (1924), pp. 174.

¹⁷ *Ibid.*, p. 176.

vided a powerful stimulus for redefining and raising the state's minimum offering.

DEFINITION OF THE FOUNDATION PROGRAM

The foundation program is more than a device for apportioning state aid for schools. In effect it determines the level of education available to children in local units which have so little taxpaying ability that they can supplement it very little from local resources, no matter how great a tax effort they make.

The definition of the foundation program is not within the scope of finance, but the definition must be made before the finance program can be formulated. Conceivably, the program could be defined only in terms of state minimum standards, or it could be defined in terms of the kind of education the people have accepted over the years through local action, or it might be defined in terms of what the people of a state, after careful deliberation, consider essential at any given time.

Experience in the various states has demonstrated that without adequate finance three things happen to state minimum standards: (1) the standards are tailored to the fiscal capacity of the weakest units of school administration, or (2) if higher standards are adopted they simply cannot be enforced in the poorest units, or (3) the resulting inequalities in local tax burdens in the poorer units force them to curtail other important elements in order to meet the standards established for certain other elements. For example, state minimum salary laws often force large classes and reductions in services.¹⁸ If, on the other hand, standards are established for services and class size they often result in a deterioration of the caliber of personnel employed. Although many existing minimum standards could be eliminated if adequate finance were provided for the foundation program, the first step in defining a foundation program is to guarantee enough financial support for the foundation program so that all mandates can be carried out without creating extreme inequalities in local tax burdens or creating imbalance in local educational programs. After adequate finance is provided, many of the mandates will be superfluous.

¹⁸ See ch. XIII and National Education Association, *Guides to the Development of State School Finance Programs* (1949).

Since minimum standards consciously or unconsciously are generally tailored for the most inefficient and poorest units of administration and since they often lag behind practices in the vast majority of school systems, it is important in defining the foundation program to discover the kind of educational programs the people in a state have come to accept over the years through local action. The scope of the programs accepted locally in the various states will vary depending upon the vitality of the local units of school government, the adequacy of past financial allowances from the state, and the taxing powers of the local units. When appraised by any kind of standards, such programs may seem very inadequate to meet the needs of our times. Nevertheless, unless the financial allowances for the foundation program are based upon programs at least as good as those that have been accepted by local action, even these cannot be available in the poorest units.

Definition of the foundation program to include those elements generally accepted by the people through local action has a further advantage. It releases local taxing power to do the things that the people locally have wanted to do but which they had been unable to do because of lack of taxing potential. As new enterprises and elements are accepted locally, the state financial plan can be modified to make them available to the children in the weakest units. A foundation program defined in terms of available practice is not as static as it would appear from superficial analysis. Indeed, from the point of view of local operation it has a great deal of virtue in it. The ultimate definition of the foundation program is always made in terms of the decisions of vital local self-government.

There has been a growing tendency to define the foundation program in terms of the needs of our society and the returns for money spent. As a result, elements are included in the foundation program before they have become generally accepted through local action. Among the elements so included in recent years have been kindergartens, junior colleges, adult education, special classes, summer schools, night schools, and part-time schools. At the present time, the inclusion of nursery schools is being advocated in many states.

The desirability of broadening the scope of the foundation program cannot be questioned. However, states should move in this direction

very cautiously. Before making extensions of the foundation program beyond what is necessary to finance existing minimum standards and elements generally accepted through local action, it is imperative that the financial allowances be sufficient to finance these existing elements so as to make them available in the poorest districts. The allowances should be adequate not only for meeting current expenditures, including necessary transportation, but also any capital outlay or debt service involved in the program. Unless the financial allowances are adequate enough to finance the programs already accepted, any extensions of the foundation program tend to dilute the total program, particularly in the weakest units.

If state-wide decisions and action are to be substituted for local decisions, it is most important that there be state-wide public participation, study, and discussion of an element before it is included in the foundation program. The process on a state-wide basis should approach the local processes as nearly as possible. Indeed, it should use the existing machinery of local school government to the fullest extent if local interest and strength in school government are to be preserved. Where the people in local units after careful deliberation get together for state-wide action, the results are quite different from state-wide action obtained by local management, state agents, and legislatures representing the people and pressure groups.

Whenever state-wide action of the latter type is substituted for local action in defining the foundation program, the healthy operation of local school government is threatened. Local management tends to by-pass the people locally and go directly to state agents or representatives for action. Since a state is nothing more than the sum total of the people in local operating units, the danger is that management, state agents, and representatives of the people will adopt programs which the supporting public has not yet accepted. Pressure groups interested in only one aspect are too eager to promote their particular interest through having it included in the state foundation program. Their interest in a particular element blinds them to the values of local self-government. They are too ready to get things into the school program before the public is ready to accept them.

Another tendency in the definition of the foundation program is

to define the program in terms of specifics such as salary schedules, particular services to be provided, and definite allotments for various budgetary categories. The more detailed such definitions are, the more local operation is handicapped. Local units should have the maximum freedom of choice within the foundation program. If the allowances for the foundation program defined broadly are sufficient, most units of operation will be able to offer a balanced program without detailed central direction. If a state has any large number of unsatisfactory units of administration it should increase its field services to assist localities in the planning of their programs.

The definition of the foundation program in any state presents major problems. Theory and practice have been moving ahead pragmatically. The need for legislative and public understanding, political compromise, and administrative simplicity, and the carry-over effects of past policies generally have prevented a realistic definition of an adequate minimum offering to be provided throughout a state. States, in applying the foundation program concept, have used various devices for determining the cost allowances for the state-wide minimum program upon which state support is distributed—the budget, a salary schedule, and unit costs.

BUDGETARY ALLOWANCES

As state minimum requirements became more numerous and detailed, the attempt to translate them into minimum costs for purposes of finance became cumbersome to administer.¹⁹ Even such requirements as minimum terms and compulsory education under more complex educational undertakings had different financial effects in different localities. Only through the budgetary process and budgetary analysis could a state accurately determine the financial outlays annually involved in the mandates in all school districts. A number of states even before 1920 had developed equalization programs based upon budgetary approval or budgetary allowances.²⁰ Under one plan, local authorities submitted budgetary estimates for maintaining the state basic program to central authorities for approval and determina-

¹⁹ See A. W. Schmidt, *Development of a State's Minimum Educational Program* (1932).

²⁰ Ch. XIII.

tion of the amount of central support to be provided. Although this method generally has been used in equalization programs combining state and local support, it has been used in the state-supported programs of Delaware and North Carolina. Another method has been for a central authority to establish arbitrarily local budgetary allowances for a state program and allocate support accordingly. This plan, too, has not been associated generally with completely state-supported equalization, except to a certain extent in North Carolina.

It must be admitted that actual budgeting is the only way to determine the cost of maintaining like programs under varying local operating conditions. Yet use of the budget has serious implications for fiscal policy. If determination of the budgetary allowances required is left to local authorities, there is a tendency to use the opportunity to obtain all the money possible from the state. The experience of North Carolina after 1901 reveals this tendency.²¹ If central agencies are given the power to review, reduce, or approve estimates submitted by localities, the center of gravity of control is shifted to the state. Decisions of state agents, even if limited to the basic program, are bound to affect the whole budget. Budgeting becomes associated with obtaining favorable action from central authorities rather than with obtaining local public understanding and support. Local operating units cannot predict their state support and plan their expenditures. Initiative is stifled by review. If central agents arbitrarily make budgetary allowances for local operation of the state foundation program, the local budgetary process is still handicapped. Unless the budgetary allowances are established objectively well in advance, local operating units cannot predict state support for budgetary planning. Central agents, not responsible to the localities like a legislature, can make decisions which hamper local management.

The use of budgets to determine the foundation program cost allowances requires certain safeguards to retain local budgetary freedom and effectiveness. Local units must be able to calculate their support for budgetary purposes. Discretion on the part of central units must be removed. Budgetary allowances for the state basic program must be

²¹ F. W. Morrison, *Equalization of the Financial Burden of Education Among Counties in North Carolina* (1925), p. 12.

calculated upon formulae for determining the number of teachers and other employees allowed under the state program, fixed salary schedules for all such employees, and specified allowances for other costs. The formulae, salary schedules, and other costs allowances must be fixed by law or administrative regulation and must not be subject to change after local budgets are adopted. Operating units must be given notice of any changes in advance of budget preparation and opportunity must be provided for a hearing on any contemplated changes.

SALARY SCHEDULE ALLOWANCES

Since the largest item of school expenditure is the salaries paid teachers and other professional employees, some states have attempted to determine the allowances for the state minimum program in terms of the cost of a state minimum salary schedule in the individual school district with or without allowances for other expenses. Maryland and North Carolina for over twenty-five years have calculated their basic support on the basis of a state salary schedule with allowances for other current expenses. Pennsylvania for over a quarter of a century has used its minimum salary schedule without allowances for other current expenses.

A plan like that of Maryland's overcomes to some extent the objections to the budgetary method of estimating the cost of the state minimum program. If the salary schedule is high enough to attract sufficient teachers who meet state requirements in all districts, if the number of teachers allowed is numerically adequate, and if the allowances for other expenses are sufficient to provide teachers with the services, tools, and environment required for effective teaching, the plan is workable. Its chief drawback is administrative complexity. A state must have data on all teachers annually to administer the plan. On the other hand, calculating the program only in terms of a minimum salary schedule as is done in Pennsylvania means unequal teaching effectiveness or unequal local tax burdens or both. Furthermore, basing state aid upon salary schedules tends to reward the wealthier units. Since they can afford to employ teachers with the most preparation and experience without excessively high local tax rates, they profit most by the plan. It tends to become reward for fiscal ability.

UNIT COST ALLOWANCES

A third practice has been to express the cost allowances for a state program as so many dollars per unit used in measuring costs, e.g., \$200 a weighted pupil in New York or \$3300 a weighted classroom in Utah (1949). This is the oldest and most common method of calculating costs, the chief refinements being in the units used for cost determination and apportionment. The accuracy with which it measures local costs depends upon the units used in measuring expenditures, control of the many variables affecting local expenditures, the recency of the expenditure data, and what is included in the expenditure data. The assumption underlying the method is that a like amount of money, adjusted for local variables affecting expenditures, and expressed in proper units, will purchase roughly equivalent programs throughout a state. It is doubtful if the unit cost method has yet been refined enough to justify such an assumption, but it has certain other important assets. It has the advantages of administrative simplicity and encouraging local freedom. A district can budget the allowances as it deems best, using varying combinations of pupil-teacher ratio, salary outlay, and outlays for other services and materials.

Mort and his students since 1923 have developed improved techniques for defining the foundation program and computing its unit costs. Mort has defined the program to be financed as including those elements (mandated or accepted by local action) generally found in schools throughout a state, together with such supplementary undertakings as transportation, necessary to provide the program. Among the elements which generally should be included are kindergartens, elementary schools, high schools, and special classes for the handicapped, including transportation, debt service, and capital outlays. In the early years Mort defined the cost of the program as the average expenditure per unit for each element in districts of average wealth in a state.²² Harry attempted to devise a method of determining variations in unit expenditure for like programs among communities arising from cost of living variations.²³ Burns undertook the first of a series

²² P. R. Mort, *State Support for Public Schools* (1926), chs. II-III.

²³ D. P. Harry, *Cost of Living of Teachers in the State of New York* (1928).

of studies dealing with the measurement of transportation unit costs.²⁴ Grossnickle undertook one of the first studies of measuring unit cost allowances for capital outlays.²⁵

In his later writings Mort has departed from the norm of communities of average wealth in establishing reasonable unit cost allowances for a basic state program. His reasoning is that communities of average wealth never truly represented what a state could do, because the taxing powers of local units have been limited by law to certain taxes and because they frequently have only limited power to use even the property tax. The taxes available to localities never have enabled them to reach their total economic resources. In recent years, therefore, he has put the stress on adequacy—returns for money spent. The cost allowances should be determined from the kind of education obtainable at given cost levels and the fiscal ability of the state as a whole. What kind of educational returns are essential for the economic, social, and civic well-being of all the people in the state? What kind of program could the state afford if it were functioning as a single school district and utilizing its tax system to reach the total economic resources of the state?²⁶

UNSOLVED PROBLEMS

Only a crude beginning has been made toward the determination of reasonable unit costs for a state-wide basic educational program. (1) Theoretically adequate state-support allowances would minimize the necessity for state mandates, requirements, or standards. Yet the fact of outmoded small governmental structure and political decadence in larger units requires some exercise of police power. Few states have integrated their state-support programs with minimum requirements. Much remains to be done in this respect, particularly in relation to capital outlays where states have used their police power most prolifically. (2) Studies of returns for money spent on schools are still in the rudimentary stage. No state has answered the question of what kind of schooling should be provided everywhere to assure

²⁴ See section on transportation following.

²⁵ See section on capital outlays following.

²⁶ P. R. Mort and A. J. Burke, *The Cost of a Defensible Foundation Program of Education for New York State* (1947).

the survival, economic well-being, and civic health, and social or cultural advance of its people. (3) Only the budgetary process unhampered by inflexible revenue systems and low consumer standards can reflect the varying expenditures required in different localities to maintain like educational programs or the varying expenditures required in the same community to maintain a like program from year to year in an economy with unstable monetary values. There are tremendous improvements possible in existing methods of approximating budgetary requirements for providing adequate educational programs in all communities. No state program has yet been geared to price indexes of any kind. (4) The determination of unit costs or expenditures depends upon good accounting systems. Relatively few localities have accounting systems which will yield the types of data needed. Most studies are based upon crude methods of estimation. (5) Theoretically, equalization is unattainable unless the foundation program cost includes all of the costs inherent in offering it. Most minimum programs are still conceived in terms of partial costs. Much remains to be done toward including transportation, debt service, and capital outlay expenditures in the cost allowances as well as all current expenditures.

TESTS OF ADEQUACY

The keys to the adequacy of any state program are (1) qualifications of the staff recruited and retained under the program; (2) the numerical sufficiency of the staff; (3) the amount and quality of specialized services provided to supplement and improve regular classroom teaching; (4) the kind and amount of materials and plant that can be purchased; and (5) the competency of management possible under the program. It is apparent at the present time that state programs with few exceptions are not even adequate enough to assure a sufficient number of teachers who meet existing certification requirements. Furthermore, the requirements themselves in many states are far too low to assure good schooling. No state has really faced the question of adequacy in its state program. State programs generally are conceived as minima designed to correct the worst conditions in a state or to restore past service levels after a serious price rise. Every

state must disregard the limitations of existing revenue institutions, provincial outlooks, existing practices, and similar negative influences and ask itself what kind of education our civilization demands—its scope and character. Financial policies must be formulated to speed the approach to education that pays sufficient dividends to liquidate its cost. This is the basic problem in federal and state school finance. The others are technical problems.

REFINEMENT OF TECHNIQUES OF APPORTIONMENT

State assumption of responsibility for the financing of its basic state-wide program required refined methods of apportionment. Although several states had introduced innovations in techniques of apportionment for purposes of equalization prior to the development of the foundation program concept, the full significance of these developments was not realized until after 1920. Research improved upon the techniques already being used in states like Washington, North Carolina, California, and Nevada.

EARLY WEIGHTED UNITS

Idaho and Kentucky were among the first states to make provision for a minimum number of census pupils in making an apportionment, but they did not develop weighted measures to the extent that they were developed in Washington. Washington began to use the technique of weighting attendance in 1897 under a law guaranteeing that no district would be allowed fewer than 2000 days of attendance for purposes of apportionment. Through weighting the attendance, the state corrected for higher unit costs arising from sparsity, particularly for one-teacher school districts. In 1909 Washington began to use weighting to make allowances for differences in unit costs among various types of schools. In making apportionments on attendance it counted a unit of elementary attendances 1.0; a unit in high school, 1.5; a unit in parental schools, 3.0; and a unit in schools for defectives, 5.0. In 1917 it applied the same method to kindergarten and night-school attendance, allowing 0.5 units of attendance for each kindergarten unit and for each unit of night-school attendance. Before 1920 Washington had used weighting to allow for differences in costs.

due to sparsity (the minimum allowance of 2000 days) and to allow for differences in the costs of operating different types of schools.²⁷

Some states in using the teacher as a basis of apportionment had related it to a pupil measure. North Carolina in 1901 allowed one teacher for each 35 pupils enrolled. Amendments adopted in 1913 and 1917 required an average daily attendance of at least 20 for each teacher employed in schools having more than two teachers.²⁸ By 1905 California and Nevada had adopted similar methods, California allowing one teacher for each 70 census pupils and Nevada one for each 75 census pupils. California (1919) began to allow one teacher for each 35 pupils in average daily attendance or fraction thereof plus two teachers for each 700 units of average daily attendance in apportioning elementary school aid. In 1921 the law was amended to allow one additional teacher for each 300 pupils in average daily attendance—a plan which remained in effect until 1947.²⁹ Nevada in 1925 began to allow one teacher unit for the first 20 pupils or less in average daily attendance and one additional teacher for each additional 20 pupils or major fraction thereof. All of these methods provided a crude adjustment for sparsity of population at least in one-teacher districts.

MORT'S WEIGHTED-ATTENDANCE MEASURES

The foregoing refinements had recognized that many costs are proportional to the number of classrooms operated and that attendance had to be weighted to adjust to this factor, which meant weighting to provide for differences in costs of operating various types of schools and for the effects of sparsity on pupil-teacher ratio. However, the sparsity correction was very crude. Mort (1925), using data for New York State, related the number of teachers employed to the size of the operating unit (one index of sparsity effect) and established norms based upon average practice. He expressed these norms in a formula for apportioning state aid either by use of weighted attendance or weighted classroom units.³⁰ Later, he developed national norms using

²⁷ *Biennial Report, 1920*, Superintendent of Public Instruction, Washington, pp. 297-299.

²⁸ F. W. Morrison, *op. cit.*, pp. 10 ff.

²⁹ F. H. Swift, *Studies in Public School Finance* (No. 1, 1922), pp. 61-62.

³⁰ P. R. Mort, *The Measurement of Educational Need* (1925).

the same techniques.³¹ Under these norms the number of weighted pupils or classroom units allowed increases the more attendance falls below certain points—about 300 for elementary and about 700 for high school. In this way, the effect of sparsity upon pupil-teacher ratio is taken care of roughly not only in one-teacher districts, but in all other types of rural districts.

Norms for weighting attendance tend to remain relatively stable for short periods, but may be subject to considerable change over long periods. Trends in teachers' salaries, preparation of teachers, curricula, teaching methods, promotion, holding power, and other educational practices have their effects on staffing and cost relationships. The effects of sparsity in New York State in 1945 were very different from the effects twenty years earlier.³² With the development of single salary schedules and general education on the high-school level, the tendency is for elementary and high-school unit expenditures to come closer together.

The apportionment of money for undertakings whose cost is not closely related to the pupils or classroom units presents its own problems. It has been revealed that transportation expense generally is but one manifestation of the effect of sparsity. Either the children must be transported or the pupil-teacher ratio will be smaller. Extreme sparsity not only means transportation, but also pupil-teacher ratios below average. There is a limit to the time that pupils can spend traveling. There is a point where the cost of transportation exceeds the cost of small class size.³³ Improved techniques for apportioning money for transportation, debt service, and capital outlays will be discussed in the next two sections.

ALLOWANCES FOR TRANSPORTATION

The development of state responsibility for pupil transportation has followed the development of the motor vehicle and better roads. During the nineteenth century states encouraged transportation, but did not provide financial assistance for it. During the present century

³¹ P. R. Mort, *State Support for Public Education* (1937), pp. 120 ff.

³² P. R. Mort and W. W. Schmidt, *Technical Aspects of State Aid* (1947), pp. 9 ff.

³³ *Ibid.*, pp. 8-9.

states have made transportation compulsory under certain conditions, regulated it, and provided financial assistance. At first, transportation was regarded as another special undertaking, but it has come to be recognized as a manifestation of sparsity. The trend is toward including it in the state foundation program and apportioning aid for it with more refined techniques.

EARLY TRANSPORTATION AIDS

Only four states provided state aid for transportation prior to 1910: Connecticut, New Jersey, Vermont, and Wisconsin. The Connecticut law of 1903 provided for the state's paying half the cost of transporting high school pupils not exceeding \$20 a pupil.³⁴ The Vermont law (1906) matched expenditures for transportation or board of high school students up to a maximum of \$24 a pupil a year. New Jersey (1906) allowed \$25 a pupil attending school in another district. Wisconsin (1906) provided aid for transportation under prescribed conditions—a fixed amount per day. By 1922 at least twenty states had some special state aid for transportation.³⁵

PERIOD OF INCREASED SUPPORT

The decade beginning in 1920 was characterized by an increase in the number of states providing aid for transportation and a recognition that transportation must be included in the foundation program for equalization support. By 1932 over thirty states had state aid for transportation. Over half of these states had begun to include transportation allowances in computing the foundation program for equalization purposes (Arkansas, Delaware, Florida, Indiana, Louisiana, Maryland, Mississippi, North Carolina, Ohio, Oklahoma, Rhode Island, South Dakota, Tennessee, Utah, and West Virginia). However, in most instances, the amount allowed was discretionary with state agencies. In another group of states it was a matching type of special grant (Connecticut, Maine, Massachusetts, Montana, New Jersey, New York, Pennsylvania, and Texas). In a third group it was a flat-grant type of special aid (Michigan, Minnesota, Missouri, Vermont,

³⁴ H. M. Walker, *op. cit.*, pp. 59–60.

³⁵ Neulen, *op. cit.*, p. 50.

Washington, and Wisconsin). New Hampshire provided transportation in unorganized territories. Wyoming prorated money for transportation according to the number of bus drivers.³⁶

METHODS OF APPORTIONMENT

With the spread of transportation aid and equalization programs attention became centered upon the methods of apportionment. Matching grants introduced inequality into the local burden of support for the foundation program and brought transportation to only those districts able to match the state grants with a reasonable local tax effort. The more common per-capita grants for transportation, either within the foundation program or for special grants, had about the same effect. The method of determining need for transportation was too crude and the allowances often were insufficient to provide transportation without excessive local tax burdens. Before 1930 only Delaware, Maryland, and North Carolina had approached a solution to the transportation problem. Delaware and North Carolina budgeted the amount required in their completely state-supported programs. Maryland allowed the full approved cost of transporting elementary pupils in its foundation program. However, it still used matching for high-school transportation. State compulsory education laws, mandatory transportation provisions, regulations as to safety of pupils transported, and attempts to secure school consolidation and district reorganization could not enforce without an equitable method of apportioning transportation assistance.

After 1925 more refined techniques for determining need for transportation, its costs, and the apportionment of aid became available. Burns developed a technique based upon density of population.³⁷ Johns refined this method by taking into account the percent of total pupils transported, allowing for uninhabited areas and areas in which pupils walk to school, and improving the methods of computing cost allowances.³⁸ Evans showed that over half the costs of transportation were not related to mileage (the sparsity factor). He proposed measur-

³⁶ P. R. Mort, *op. cit.*, pp. 75 ff.

³⁷ R. L. Burns, *Measurement of the Need for Transporting Pupils* (1927).

³⁸ R. L. Johns, *State and Local Administration of School Transportation* (1928), and *State Support for School Transportation* (1935).

ing costs in terms of job units—the cost of operating a conveyance of a given size over a route of certain length for a specified period of time.³⁹ Mort developed techniques based upon Evan's findings.⁴⁰ Hutchins divided cost factors into two classes: managerial and natural. He found that over two-thirds of the costs arose from managerial factors, particularly the size, capacity, and purchase price of the bus, the utilization of the bus, and the salary of drivers. The most important natural factors are density, number of pupils transported, and road condition.⁴¹ Lambert questioned the use of density measures, but his criticisms, like the findings of Evans and Hutchins, apply particularly to the methods of determining cost allowances.⁴²

Research has demonstrated that the need for transportation in rural areas is an aspect of sparsity of population; in urban areas it is associated with the number of physically handicapped children, traffic hazards, and plant utilization. The determination of reasonable cost allowances has not been solved. Yet, unless the basic state aid program includes the full measured cost of state transportation, equality of tax burden for support of the foundation program and reorganization of districts in rural areas will not be realized. The budgetary method used in Delaware, state operation in North Carolina, approved expenditures in Maryland come nearest to solving the cost problem, but they involve centralization. Of course, centralization in transportation is not too serious since it does not affect the educational program and since it releases local taxing power for meeting educational needs. States that attempt to finance transportation with local operational freedom have far to go in allowing for natural and managerial factors affecting costs. Existing cost-accounting methods generally do not provide the basic data needed.

Research has had an effect on state policy and practice in transportation. Florida (1931), Alabama (1935), Ohio (1937), Oklahoma (1937), and West Virginia (1939) introduced more refined

³⁹ F. O. Evans, *Factors Affecting the Cost of Transportation in California* (1930).

⁴⁰ P. R. Mort, *Report of the Governor's Survey Commission* (New Jersey, 1933), I, 52 ff., and *The Financing of the Public Schools of Maine* (1934), pp. 119 ff.

⁴¹ C. D. Hutchins, *The Cost of Pupil Transportation* (1938).

⁴² A. C. Lambert, *School Transportation* (1938).

methods of calculating transportation allowances within the foundation program. The Alabama, Florida, and Oklahoma plans relied heavily upon density of population. The Ohio plan took into account both managerial and natural factors such as sparsity. It is based upon number of pupils transported, density, condition of roads, pupils per vehicle, investment per pupil, trips per bus, percent of capacity used, and bus miles per square mile.⁴³ The West Virginia program involved the following factors: number of elementary pupils transported, number of secondary pupils transported, length of routes, condition of equipment, average size of bus needed, condition of roads, and number of schools to which pupils are transported.⁴⁴ In both states, the various factors are combined in a formula by the use of weighting.

CURRENT STATUS

All except nine states (Arizona, Colorado, Kentucky, Nebraska, Nevada, New Hampshire, North Dakota, South Dakota, and Vermont) provided allowances for transportation in 1948. Eight states included transportation allowances in the foundation program, using refined, objective indices of transportation need—Alabama, Florida, Georgia, Maryland, Ohio, Oklahoma, Tennessee, and West Virginia. Delaware and North Carolina budgeted the amount required for transportation in their state-supported programs. Another nine states included it in the foundation program but used unrefined per-capita or matching formulas (Idaho, Kansas, Louisiana, Michigan, Pennsylvania, Utah, and Washington) or discretionary grants (Indiana and Mississippi). In the remaining twenty states transportation could be classified largely as a special aid. Although most of these are of the unrefined per-pupil or matching type, California and Massachusetts combined a degree of equalization with matching. Iowa, New Mexico, New York, and Virginia had developed more refined formulas.⁴⁵

In 1949 Indiana and Kansas included crude transportation allowances in their new foundation programs. Texas used a more refined formula in its new program.

⁴³ T. Covert, *State Plans for Financing Pupil Transportation* (U. S. Office of Education Pamphlet, No. 99, 1946), p. 30.

⁴⁴ *Ibid.*, p. 39.

⁴⁵ National Education Association, *School Finance Systems, 1947-48*, and Council of State Governments, *The Forty-Eight State School Systems*, pp. 220-221.

ALLOWANCES FOR CAPITAL OUTLAYS AND DEBT SERVICE

The assumption of state control over public school buildings and the establishment of state minimum standards forced some states to make provisions for buildings, capital outlays, and debt service after 1900, particularly in districts with insufficient taxable property to provide buildings that met state minimum standards without excessive local taxation. About 1901 Alabama first provided aid for rural buildings. Delaware (1903) made an annual appropriation for the erection of school buildings in Negro districts. North Carolina (1903) created a revolving fund for making loans for rural buildings. Virginia began providing loans for school buildings in 1906. Louisiana (1904) adopted a constitutional amendment permitting the legislature to issue \$1 million in bonds to erect school buildings in communities not able to provide the buildings with their own resources. South Carolina (1909) provided aid for rural buildings on a matching basis up to one-fourth the cost.⁴⁶

It was soon learned that the soundest method of providing satisfactory housing for pupils in financially weak districts was through the consolidation of districts. Aid for buildings in consolidated schools or in consolidated districts was first provided in Rhode Island (1898), Minnesota (1911), Oklahoma (1911), Missouri (1913), Wisconsin (1913), Alabama (1916), Delaware, Pennsylvania, and Tennessee (1919), Maine (1921), New York (1925), and Arkansas (1927). These provisions for building aid generally have provided for the state paying a percentage of the costs up to specified maxima. Another plan was paying so much for each small school closed or so much for each new building erected. By 1925 at least a fourth of the states had made provisions for aiding some districts with capital outlay.⁴⁷

After 1920 a few states began to take bold steps in financing capital outlays and debt service. Delaware (1927) assumed almost complete responsibility for school buildings and their financing, requiring only a small local contribution to the cost. During the same year Arkansas included allowances for debt service in its foundation program and

⁴⁶ A. J. Burke, "Development of State Responsibility for School and College Buildings," *American School and University*, 1946, pp. 41-46.

⁴⁷ *Ibid.*

Alabama allowed for both capital outlays and debt service for rural units.⁴⁸

STUDIES OF APPORTIONMENT

With modern equalization programs that minimize central controls or discretionary authority over local operations, research has attempted to find objective measures for apportioning aid for capital outlays or debt service. Adams proposed a technique based upon the computation of depreciation on existing plant, the state equalizing allowances over a uniform local tax effort.⁴⁹ Grossnickle's study was the first attempt to measure the need for capital outlay in a state foundation program. He proposed allocating a fixed percentage of the current expense program for capital outlays.⁵⁰ Lindman developed a formula for combining matching and equalization in the apportionment of building aid.⁵¹ Weller worked out a technique based upon a standard unit of housing, measurement of need for the unit from attendance data, and cost allowances based upon average practice.⁵² Bormann evaluated nine units for measuring building costs.⁵³ Westhagen studied the factor of obsolescence in school buildings.⁵⁴ Mort and Strevell found that the measurement of need for capital outlays in sparsely settled areas must be based upon the same weighted measures used for apportioning support for current expenses.⁵⁵

Research to date has had little effect upon practice in the financing of capital outlays. Indeed, practice often has developed quite independently of research. Delaware (1927) developed techniques for

⁴⁸ *Ibid.*

⁴⁹ J. E. Adams, *A Study of the Equalization of Educational Opportunities in Kentucky* (1928).

⁵⁰ F. E. Grossnickle, *Capital Outlays in Relation to a State's Minimum Educational Program* (1931).

⁵¹ Erick Lindman, *Development of An Equalized Matching Formula for the Apportionment of State School Building Aid* (1948).

⁵² G. M. Weller, *State Equalization of Capital Outlays for Public School Buildings* (1941).

⁵³ H. H. Bormann, *Unit Costs of School Buildings* (1941).

⁵⁴ M. H. Westhagen, *A Theory of Obsolescence of Buildings: Its Relation to Public Finance, Education, and Other Services of the Community with Special References to Chicago* (1946).

⁵⁵ P. R. Mort, *The Crisis in Central School Finance*, pp. 31 ff., and W. H. Strevell, *State Aid for Central School Building* (1949).

equalizing the cost of a standard building over a two-mill local levy. New York (1941) developed techniques for allocating building aid on an equalization plan with allowances corrected for changes in the prices of labor and materials. Most other states have used crude methods of apportionment.

There are many reasons why techniques for apportioning state funds for buildings have not been refined: (1) Existing debt service has been created under widely different price levels. Any type of allowances for capital outlays and debt service under a foundation program will ease the resulting inequalities in the local tax burden. However, the attainment of any degree of equity among districts would require substantial allowances corrected for differences in prices at different periods. (2) The debt status of different operating units varies—some are heavily indebted and others are relatively debt-free. To include allowances for capital outlays for all districts without provision for reserves may give some districts a tax advantage or a current expense advantage over other districts. (3) The amount of debt created locally often represents differences in managerial prudence and competence. The determination of the extent to which a state should assume part of the burden is not easy to make. (4) Debt limits prevent many localities from erecting necessary facilities. Capital outlay or debt service allowances within the foundation program do not afford immediate help to such units. The only way around their difficulty is outright grants for the state share of the cost of the new building or state assumption of its share of the debt. (5) The determination of appropriate cost allowances even under a satisfactory formula is difficult. The allowances must be corrected for regional and time variations in the costs of materials and labor.

PRINCIPLES INVOLVED

Certain principles emerge from past experience with state participation in the financing of capital outlays and debt service. (1) Although the meeting of building costs traditionally has been left to localities, the larger units of government are better able to finance capital undertakings. During high prices federal and state tax systems respond quickly to the higher levels of income. They can finance capital out-

lays out of current revenues where they are absolutely essential (fire loss or population growth, for examples) without creating debt on an inflated price level. During depressions they are in a better position to borrow than local units in order to take advantage of low building costs. (2) The state unit should not participate in the financing of capital outlays in school districts that should be reorganized. Allowances for capital outlays and debt service in state programs should be limited to satisfactorily organized units. (3) Even for reorganized districts, states should allow for the effect of sparsity upon the need and cost of buildings. (4) With new construction, states should meet their share out of current revenues if possible. If not, the state should do its own borrowing to meet its share of the cost. In this way, state building aid will purchase more housing and the state will not be using up the debt limit placed upon localities. (5) The computation of allowances for capital outlays or debt service should be based upon specifications for a standard unit of housing with corrections for changes in the price level over a time span and corrections for community differences in costs of similar construction. (6) Localities should be free to exceed the allowances at their own expense.

CURRENT PRACTICE

In 1947-1948 nineteen states provided some aid for debt service or capital outlays: Alabama, Arkansas, California, Connecticut, Delaware, Florida, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, New York, Ohio, Pennsylvania, Rhode Island, Tennessee, Vermont, and Washington. The provisions in Louisiana (vocational only), Maine, Missouri, Pennsylvania, Rhode Island, and Vermont are most inadequate or outmoded. Only about a fourth of the states had provisions worth considering. However, Iowa, Pennsylvania, West Virginia, Virginia, and North Carolina were added to the states with building aid in 1950.

Support for capital outlays or debt service is part of the foundation program in Alabama, Arkansas, and Florida. Alabama prorates the funds available for capital outlays or debt service by classroom units. Arkansas allows "normal debt service" based upon a percentage of the tax levy for debt service and in 1949 provided for capital outlay in

weak districts. Florida allows \$400 a classroom unit for capital outlay. In spite of their crude measures of need, and sometimes inadequate cost allowances, such programs bring about better equalization than those which ignore capital outlays and debt service in calculating allowances.

The other states handle building allowances as a special aid. California apportions its funds as loans with residual aid for poor districts. The Connecticut aid for buildings is administered by a public school building commission according to a system of priorities as to need, but the allowances are inadequate. The present plan of distribution building aid in Delaware is based upon matching. Maryland uses a combination of loans and matching. The Mississippi building fund also is based upon matching with a very low limit per classroom. The New York equalization plan has been described previously; aid is inadequate and is limited to reorganized districts. Ohio allows discretionary grants for the purchase of new buses and the rehabilitation of school plants in low-valuation districts. Massachusetts allows from 20 to 50 percent of the approved cost, depending upon valuation. Tennessee prorates one half its funds for capital outlays among counties equally and the other half on the basis of area and population. West Virginia prorates money for building by counties and enrollment; Virginia by enrollment with some equalization; North Carolina by counties and membership. Washington apportions its building aid on an equalization and matching basis paying 75 percent of the approved cost in the lowest-valuation districts and 25 percent in the highest-valuation units. Priority is given to district reorganization and rapidly growing localities in making grants. The money is paid outright, indebtedness being created only for the local share. Approval of the costs is vested in the State Board of Education and the State Superintendent of Public Instruction. Pennsylvania erects buildings and rents them to school districts.

MODERN STATE-SUPPORT PROGRAMS

About a third of the states in 1947-1948 (about a fourth in 1949) stressed completely state-supported equalization programs involving the foundation program concept, more refined techniques of appor-

tionment, or both. In two states, Delaware and North Carolina, it was practically the only policy. In ten others it was the major policy: Georgia, Indiana, Maine, Missouri, Montana, Nevada, Oregon, South Carolina, Washington, and Wisconsin. Considering the level of foundation program provided through their fixed per-capita grants, Arizona, California, and Connecticut probably should be included in this group of states. It is an important part of the policy in Pennsylvania and West Virginia.

There seems to be a tendency for states to shift from this type of program to one combining central and local support. In 1949 Indiana, Montana, and Wisconsin made this shift. Florida and Oklahoma recently made the change. Florida used the classroom unit as almost the sole basis of apportionment from 1931 to 1947. Until 1935 this was used to distribute variable grants-in-aid. In 1935 the minimum guarantee was fixed at \$800 per unit. It was raised to \$995 in 1945. Oklahoma from 1935 to 1941 used the classroom unit and a state minimum salary as a large part of its apportionment. The amount originally provided varied from \$50 a month to \$85 a month depending upon preparation with an allowance of \$5 a month for experience up to prescribed maxima. Until 1949 Indiana paid 80 percent of the cost of a state minimum salary schedule in all units. Montana and Wisconsin had the Cubberley type of program with some refinement in the methods of apportionment.

THE DELAWARE PLAN

Delaware in 1919 substituted the county for the school district as the unit of government for schools. Two years later it abolished the county unit and replaced it with a state unit. The only other units remaining are the city of Wilmington and in about fifteen special districts which include the larger population centers in the state. The City of Wilmington is autonomous. The special districts are subject to limited state administration and supervisory control. The State Board through the State Education Department administers and supervises schools in the state unit. The city of Wilmington, the special districts, and the component attendance districts within the state unit have retained their taxing powers. They each have a board of trustees.

The State Board of Education presents a biennial budget to the Legislature for the current operating expenditures of all the schools in the state. The amount appropriated is the state support for the biennium. It has averaged over 90 percent of the amount spent for schools in the state in recent years.

The method of budgeting and allocating state money to the state unit and the other operating units has been changed many times since 1921. The method used until 1949 may be summarized as follows: Using a state minimum salary schedule and a prescribed form, each operating unit and attendance district prepared an estimate of its financial needs by September 15th with the assistance of the State Education Department. This budget contained amounts for each operating or attendance unit for each budgetary classification, including administrative control, instructional salaries, supplies and other costs of instruction, operation of plant, maintenance, auxiliary and coordinate activities, and capital outlays. All budgets had to be approved by the State Superintendent of Schools before they were submitted to the State Budget Commission, which held hearings at which local districts could appear. After acceptance or revision by the Commission the total budget for all units was submitted to the Legislature by the Governor. In 1949 the state used a salary schedule ranging from \$2000 to \$4600 plus an allowance of \$525 a teacher unit. Hereafter the above allowance will be established annually by the State Budget Commission. Final appropriations are made by the Legislature. The state budget provides all but a small part of the state support for schools. There have been special appropriations for salary increases and aid for school buildings. At present, the state matches funds raised locally for school building construction. In 1949 there were special appropriations for delayed repairs, textbooks, and supplies.

The Delaware plan not only shifts the burden of support to the state, but it has shifted a large part of the control. Since 1941 the source of central control has been shifted from the State Education Department to the Permanent Budget Commission. Yet the state has not attained the full advantages of centralization—transportation has been handled by contract; operation and maintenance and personnel employment are handled locally. Only in the area of supervisory and

specialized services has the state secured the economies inherent in central operation. The State Treasurer is the treasurer of all districts. The decentralized structure has been retained within the state unit. Although most attendance districts have not taxed themselves to exceed the state program, the power to exercise local initiative remains, but is restricted by state budgetary review.

NORTH CAROLINA

In 1931 North Carolina abandoned the policy of equalization combining state and local support and provided for the complete state support of the expenses of general control, instruction, operation of plant, and auxiliary services for a six-month school term. Additional aid was provided to help finance extended school terms. In 1933 the state began to support the same expenditures for an eight-month term, abandoning the aid for extended terms. All local taxes levied for extending the term were abolished. A State School Commission, independent of the State Board, was created to establish standards of support and to control expenditures. Only certain districts (counties and certain cities) were authorized to vote special levies for schools. In 1943 the state program was extended to nine months.

In many ways, the North Carolina program is similar to the one in Delaware. Local units, using a state minimum salary schedule (up to \$3100 in 1949) and state standards and forms, prepare budgets which are submitted to the State Board of Education for approval. As indicated above, the budgets include general control, instructional service, operation of plant, and auxiliary agencies, including transportation. State appropriations are allocated to operating units on the basis of budgetary allotments allowed by the State Board. The Board has wide discretion in allocating money. It can utilize existing plant regardless of county or district lines, assign pupils, close schools, designate high schools, and establish or change transportation routes. It provides the textbooks used. To obtain funds, local units draw vouchers on the State Treasury to the extent of their approved budgetary allowances.

Like Delaware, North Carolina has moved far toward centralization, both in support and control. The only operations taken over directly by the state, however, are transportation, purchasing, and treas-

ury. It uses centralized purchasing for buses, fuel, transportation supplies, janitors' supplies, instructional supplies, textbooks, and other materials purchased with state funds. State funds are administered and paid out directly by state officers. So the state has secured many of the advantages of centralization. Although it has not eliminated local government for schools, it has restricted that government. Local authorities must not only submit budgets for the state program for state approval, but they also must submit for approval budgets for money raised locally. Thus, local operation is always subject to veto. Fortunately, since 1943 dual state control has been eliminated with the abolishment of the State School Commission, a body independent of the State Board of Education. Local units are required to raise funds locally for maintenance, debt service, capital outlays, and certain other expenses not allowed in the state budget. Local units may now employ more teachers than are allotted under the approved budget for a nine-month term, pay higher salaries, and otherwise exceed the state program, but they are restricted by budgetary approval and were limited in taxing power until 1949.

OTHER PROGRAMS

The remaining state-supported programs do not imply as high a degree of state control or operation. Budgeting is a local function. State support usually is provided on other bases too.

(1) *California*. Since 1905 California has supported a relatively high level of equalization with state funds alone. In 1905 the state guaranteed \$250 a teacher, allowing one teacher for each 70 census pupils. From 1905 to 1947 the major apportionment in the state was made upon classroom units. From 1921 to 1933 the state provided \$700 a classroom unit. After the state assumed the county share in 1933, the amount was increased to \$1400. In 1945 it was increased to \$1570. In 1947 a flat grant of \$90 a pupil in average daily attendance (about \$3150 on the old teacher unit basis) plus certain school allowances was adopted.

(2) *Washington*. Since 1909 the state has supported a relatively high level in all districts through allowances for each day of weighted attendance. Since 1945 it has allowed a fixed sum for each teacher

employed—now about \$1650 per certificated employee plus 35 cents per day of weighted attendance. The attendance includes actual attendance in elementary and junior-senior high school plus one-fifth of the junior-high-school attendance, two-fifths of the high-school attendance, one-fifth times each hour of vocational class attendance, three times the attendance in parental schools where food and lodging is provided, two times the attendance in thirteenth and fourteenth years of high schools, 3000 days of attendance for each special service such as remedial instruction, guidance, health, and other special services, one-fifth day of attendance for each hour of actual attendance in night schools, part-time schools, and adult-education classes, and one-half day's attendance for each two hours of kindergarten instruction. This is probably the most comprehensive state-supported program in the United States today. Although the weighting provides little correction for sparsity, the teacher grants provide substantial correction for this factor. This is supplemented by an equalization program combining state and local support.

(3) *Others.* The remaining state-supported programs fall into five classes. (a) Arizona and Connecticut have relatively large per-pupil allowances with some correction for cost differences arising from population sparsity. (b) Georgia and Indiana (until 1949) supported state minimum salaries, Georgia paying the full cost for the number of teacher units allowed and Indiana 80 percent of it. (c) Maine, Missouri, Montana (until 1949), Nevada, Oregon, and Wisconsin (until 1949) combined teacher unit allowances with per-capita grants (the Cubberley type). (d) South Carolina supported state minimum salary schedule with some small allowances for other current expenses. (e) Pennsylvania and West Virginia used this type of program as a minimum guarantee under their equalization programs. However, it was not necessarily the dominant policy in these two states.

APPRAISAL OF THE POLICY—A SUMMARY

Completely state-supported equalization programs first appeared about a century ago. They attempted to provide a minimum amount of support for each one-teacher district, school, or teacher. Over half the states have had the policy, but the trend has been toward equaliza-

tion programs combining local and state support. With the emergence of the foundation program concept and more refined methods of apportionment for current expenses (including transportation) and capital expenditures, the completely state-supported program has great potentialities. Unfortunately, most such programs have been inadequate and they have been accompanied by centralizing tendencies and restrictions upon local initiative which have been undesirable.

The foundation program is more than a device for distributing state funds. In effect, it determines the minimum level of schooling available to all the children. The inclusion of new elements in the foundation program before adequate allowances are made for the support of a basic school program is of questionable value. Insofar as possible the foundation program should be defined in terms of elements generally accepted by local action. To define it in terms of unit costs rather than budgets or state salary schedules and specific cost allowances, promotes local initiative and flexibility. Adequacy is the test to be applied to a foundation program.

The apportionment of funds for equalization purposes requires the use of weighted attendance measures which will allow for extra costs arising from sparsity such as lower pupil-teacher ratios or transportation, or from program differences, e.g., as between adult education and elementary education. The techniques of measuring need for transportation allowances and capital outlay allowances have been greatly improved, but practice has lagged behind research.

Over a third of the states had a completely state-supported foundation program as the dominant fiscal policy for schools in 1947-1948. The programs in North Dakota and Rhode Island were crude and did not attain much equalization. Their limitations have been summarized. The programs in Maine, Missouri, Montana, Nevada, Oregon, and Wisconsin were more refined but they, too, were outmoded. The two main questions to be asked about the other nine are (1) the adequacy of the level of support provided and (2) their effect upon local initiative or adaptability.

POTENTIAL VALUE FOR LOCAL INITIATIVE

A completely state-supported equalization program theoretically releases all local taxing power for local adaptations, adjustments, or

other budgetary requirements arising from local self-government. Actually, no state has a completely state-supported program. All of them omitted capital outlays or handled them as a special aid and most of them omitted other expenses inherent in meeting state requirements; so only part of local taxing power is released to meet local needs. Furthermore, many of the states having had such programs have been forced into them by restrictions on local taxing power, particularly Indiana, North Carolina, and Washington. Some have restricted local initiative as they moved toward greater central support, especially Delaware and North Carolina. Generally, states with such programs find a slackening in local interest in school budgetary problems; but some of these states e.g., Delaware and North Carolina, are now taking steps to increase local interest and to remove restrictions on local action.

There is no reason why a completely state-supported equalization program should mean less local self-government than a program combining state and local support. Any equalization program virtually becomes almost complete state support in fiscally weak districts. Such districts cannot maintain an adequate educational program with their own resources. The difficulty probably is psychological. Central agents conceive the whole problem as one of state concern. Local agents find it easier to take their problems to state functionaries than to build up local understanding and support. All parties confuse state support for a foundation program with state support to promote new undertakings not yet accepted by the citizens in the local operating unit. Where the state makes a minimum of financial demands upon the local unit, the opportunity for securing progress locally should be enhanced.

The policy of complete central support of a state-wide basic program requires restraint by central agents and greater attention to local government by local management. There is a danger that all effort to bring about improvement will be centered on the state level and the inherent advantages of localism will be overlooked. Central agents should look on the policy as a means of releasing the potential of localities and not use it to place restraints and restrictions upon local operation. Local agents can legitimately try to get the state to assume full financial responsibility for all outlays inherent in state laws and regulations. In order to secure taxing leeway under local tax limita-

tions, they must have substantial state support of a basic program. However, they should look to their own supporting unit for money to go beyond state requirements, to finance new undertakings, and to introduce innovations. Every possible means must be employed to create and maintain local interest and concern with the total school budget. Central support is not a substitute for local taxation. The citizens in every locality pay state taxes. They should be just as concerned about the school program and returns for money spent when they pay taxes to the state for the support of schools as when they pay them locally.

ADEQUACY

The real limitation of a centrally supported equalization program is the heavy financial demands it makes upon the state unit. Where a state attempts to finance a basic program in all districts without using any local taxation for this purpose, it tends to equalize at a lower level of support than it would otherwise.

The adequacy of completely state-supported programs under present economic conditions may be judged by two standards. (1) Without raising the question of inadequacy of returns for money spent at the average, they might be compared with the national average expenditure per weighted pupil, now a little over \$100. By this standard only Delaware and Washington state-supported programs stood out. Arizona, California, Connecticut, and Indiana were approaching this level of state support; the rest were far below it. (2) If an expenditure level of \$200 a weighted pupil is accepted as the minimum amount required under present price levels to assure staffing with qualified teachers and the attainment of a reasonable degree of educational success,⁵⁶ then the only one that is close to this level is Delaware. The Washington program, however, combining 35 cents per day of weighted attendance with about \$1650 per certificated employee, is better than most equalization programs, even those combining state and local support.

California and Washington, moreover, are attaining a relatively high degree of adequacy through supplemental equalization programs

⁵⁶ See National Education Association, *Still Unfinished* (1948), pp. 7-8.

combining central and local support as shown in the next chapter. Oregon is moving toward adequacy through its supplemental equalization. The other states cannot afford to sacrifice adequacy to the complete state support of an inadequate program.

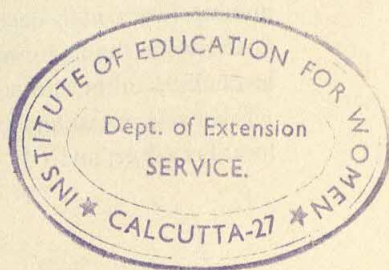
ADAPTABILITY

Another pragmatic test of total arrangements for school support is the presence of well-supported school systems that serve as a stimulus for improvement in the state. Judged by this standard, Arizona, Georgia, North Carolina, North Dakota, and South Carolina ranked very low. In these states the generally low level of economic ability may make this condition inevitable without substantial federal support. Although they had no well-supported school systems, Delaware, Indiana, Maine, Montana, Oregon, Rhode Island, Washington, and Wisconsin at least had units that were approaching adequacy. California, Connecticut, Missouri, and Nevada have some well-supported schools.⁵⁷

READINGS

Covert (32); Council of State Governments (188), chs. VI-VIII; Cubberley (38); Grace and Moe (73), Part II, chs. IV-V; Harry (79); Morrison (107), ch. X; Mort (109), chs. I and IV; Mort (111), ch. III; Mort and Burke (113); Mort and Lawler (116); Mort and Reusser (118), ch. VII; Schmidt (155); Strayer and Haig (167); and Swift (171), chs. XIII-XIV.

⁵⁷ *Ibid.*, pp. 9 ff.



Equalization Programs Combining Central and Local Support

Every state, with the possible exception of Delaware, at some period in its development of fiscal policy for schools has had an equalization program using a combination of state and local support. Until 1920 none of these, except the one in North Carolina, was fiscally important. The earliest programs were designed to assist weak districts in maintaining a minimum term. Out of these emerged the concept of varying aid according to the fiscal strength of local units, but the aid was still regarded as supplemental assistance for a long time. Although many states still have weak district aid, the trend has been toward the support of a state basic or foundation program with a reasonable, uniform local tax effort, the state generally supplementing the yield of a uniform local tax effort in order to finance the state program. The number of states making this policy the basis of their school finance programs continues to increase. Such equalization programs now (1950) represent the dominant fiscal policy in nearly half of the states. All states except Arizona, Connecticut, Delaware, North Carolina, and South Carolina, now have policies that incorporate certain features of this type of equalization, but most plans generally are supplemental to other policies.

Modern equalization programs combining state and local support involve (1) a high degree of state responsibility for education, particularly for the financing of state mandates; (2) state concern over inequalities in the burden of local taxation resulting from state action; (3) an attempt to finance a state foundation program with a uniform local tax effort; and (4) efforts to keep the local tax rate for this pur-

pose as low as possible in order to free the local tax base for local initiative or adaptability. Like completely state-supported equalization plans, the policy requires definition of the state basic program to be supported and the use of refined methods of apportionment.¹ They also necessitate the determination of local fiscal capacity and/or the local rate of taxation for the support of the basic program, and the division of support between central and local government. Because equalization formulas of this type may involve both apportionment according to fiscal need and distribution according to wealth, appraisal must take account of this fact. A formula involving a relatively low foundation program and a relatively low local tax contribution to its cost is generally weighted in favor of distributing state-collected taxes to local units in proportion to their taxpaying ability. On the other hand, a formula involving a relatively high local tax contribution to the cost of the foundation program is generally weighted in favor of distribution of state support in proportion to lack of fiscal ability relative to need.

EVOLUTION OF WEAK DISTRICT AID

Present equalization programs for schools combining state and local support had their origins in the "weak district concept of aid." Massachusetts inaugurated the policy when in 1874 it discontinued its grants for towns and cities with over \$10,000,000 assessed valuation; in 1891 this was reduced to \$3,000,000; and in 1905 to \$2,500,000. Three other states had made provisions for aiding weak districts before 1900. New Jersey (1881) reserved 10 percent of its state school property tax for equalization, but the money was simply turned over to the poor counties for division among school districts (the state itself did not assume responsibility for aiding weak districts until 1922). Two other states gave their state education departments discretionary power to aid weak units. Vermont in 1894 created a \$15,000 equalization fund to be used to reduce local property tax rates in units with excessively high rates. Five years later New Hampshire appropriated \$18,750 to assist units with less than \$3000 of valuation per child.²

¹ See ch. XII for a discussion of these.

² E. P. Cubberley, *State School Funds and Their Apportionment* (1905), pp. 203-208.

EARLY REFINEMENTS

Soon after 1900 new techniques were introduced in North Carolina, Connecticut, New York, Indiana, and Massachusetts which took into consideration the wealth of the local unit in apportioning this type of aid. North Carolina (1901) provided an annual appropriation of \$100,000 to maintain a four-month term. The law introduced the concept of making up budgetary deficits in aiding weak districts. The county superintendent was required to submit the budgetary requirements and revenues available from all sources to the State Board of Education. A district had to levy the maximum tax rate to qualify for aid. Teachers were allotted according to a formula and the amount of salary paid and other expenses were subject to regulation. Wide discretion was left with the state agency in apportioning aid. In 1913 the size of the fund was increased to \$375,000 to aid such districts in maintaining a six-month term.³ Indiana (1905) adopted a similar plan.

Connecticut in 1903 established a policy that has become the basis of modern equalization programs. The state defined a minimum amount of support per unit to be provided and supplemented the yield of a uniform local tax to provide that amount. The state guaranteed an expenditure of \$25 a pupil in average daily attendance. If a tax of \$4.00 a thousand would not raise this amount, the state apportioned the deficit. The original law applied only to towns with less than \$500,000 assessed valuation. In 1907 the limit was raised to \$1,000,000 and in 1909 to \$1,750,000. The plan remained in effect until 1910. After that, the state abandoned the effort to provide a uniform level of support with a uniform local tax effort. From 1910 to 1917 the tax rate required varied from \$3.00 a thousand in towns with less than \$500,000 valuation to \$6.00 in towns with \$1,250,000 to \$1,750,000. From 1917 until 1945 the state followed a plan similar to that of Massachusetts described above. In 1919, however, it made provision for giving supplemental aid to towns which were not able to comply with state requirements with a \$6.00 local tax rate.⁴

³ F. W. Morrison, *Equalization of the Financial Burden of Education Among Counties in North Carolina* (1925), p. 10 ff.

⁴ Helen M. Walker, *The Development of State Support and Control of Education in Connecticut* (1926), pp. 58 ff.

The techniques developed in New York and Massachusetts provided grants which increased in amount as assessed valuation decreased. New York (1902) developed a method of apportionment similar to that later adopted in Massachusetts. Where the valuation of a district was below \$40,000 a district quota of \$150 was provided; where the valuation exceeded \$40,000 the quota was \$125. This technique was further refined in 1909 when the quota for districts with less than \$20,000 valuation was fixed at \$200; those with \$20,000 to \$40,000 at \$175; those with \$40,000 to \$60,000 at \$150; and all others at \$125. In 1920 provision was made for increasing a teacher quota of \$200 by \$2.00 for each \$1000 that the valuation of a one-teacher district was less than \$100,000.⁵

Massachusetts (1905) made aid inversely proportional to wealth. Where the assessed valuation ranged from \$2,000,000 to \$2,500,000 the town grant was \$75; \$1,000,000 to \$2,000,000, \$150; \$500,000 to \$1,000,000, \$300; and below \$500,000, the grant was \$500 plus an additional \$75 where the tax rate was \$18 a thousand. To qualify for the grants, towns had to maintain an eight-month term, enforce compulsory education laws, and raise a town tax of not less than \$3.00 a census pupil.⁶

EFFECTS OF MINIMUM SALARY LAWS

The enactment of minimum salary laws for teachers hastened the development of special aid to poor school districts. States had been attempting for over a century to establish minimum terms, but the financial demands of these requirements were not too heavy until states became concerned with teacher certification toward the close of the nineteenth century. States found it impossible to enforce minimum qualifications for teachers unless the salaries paid by local school districts were high enough to encourage a sufficient number of persons to meet the state requirements. West Virginia in 1882 passed the first such law, making the minimum \$25 a month for teachers with the highest grade certificate; \$20 for the next highest; and \$18 for the

⁵ A. J. Burke, *A Century and a Half of Financing Locally Operated Functions of Government in New York State* (1947), p. 29.

⁶ Cubberley, *op. cit.*, pp. 210-212.

lowest type of certificate.⁷ After the passage of the Indiana minimum salary law in 1901 an increasing number of states enacted similar laws. Before 1920 at least twenty states had minimum salary provisions.⁸ Generally these were followed by "weak district" aid schemes, although some states such as North Dakota employed crude state-supported equalization plans.

State minimum salary legislation combined with requirements as to minimum term and compulsory education had an immediate impact upon the local tax burden for school support, especially in the fiscally weak units. The immediate effect of such laws in poor districts was a reduction in term. States were forced to assist such districts to maintain the minimum term. In 1903 Indiana raised its minimum salary, which depended upon scholarship, examination grades, and experience. The effect of the law in the poor districts was a reduction in term.⁹ Two years later it provided aid for weak districts which could not operate on the maximum tax rate permitted. West Virginia (1908) adopted a similar law. Pennsylvania (1903-1911), Maryland (1904-1922), Ohio (1906-1908), Missouri and Rhode Island (1909), Utah (1905-1909), Colorado (1913), and Wisconsin (1917-1919) adopted minimum salary laws followed by weak district aid schemes.¹⁰

North Carolina's policy during this period was unusual in two respects. It developed aid for weak districts before passing its minimum salary law. It not only set minima of \$35 a month for elementary teachers and \$40 for secondary teachers holding state certificates in 1907, but it also established a maximum salary that could be paid teachers with low grade certificates.¹¹ Four years later it expanded its program for aiding districts maintain the minimum term.

The significant characteristic of many of the weak districts aid plans evolving out of minimum salary laws was their predictability, objectivity, and concern for the local tax burden. Like the early law in

⁷ R. W. Sies, "Legal Regulation of Minimum Salaries for Teachers." *Educational Review* XXXV (January, 1908), pp. 10-21.

⁸ P. R. Spencer, *A State Minimum Teachers' Salary Schedule* (1932), pp. 6-7, and data on states omitted in his study.

⁹ National Education Association, *Proceedings* (1906), pp. 137 ff.

¹⁰ Spencer, *op. cit.*, pp. 11 ff., and data from other states not included in his study.

¹¹ Sies, *op. cit.*

Connecticut, the amount of support to be provided frequently was stated definitely, as was the local tax effort required. A district could determine its apportionment in advance if the state appropriation or fund was sufficient. Unfortunately, many of the plans were financed by lump-sum appropriations, earmarked tax sources, reserves or other means which sometimes required prorata reductions in apportionments. Of course, there were exceptions, such as Indiana, North Carolina, and West Virginia, where wide discretion was left with state authorities in apportionment. Such states were adhering to the equalization concept as defined by Cubberley.

The early laws designed to help local units finance state minimum salaries for the minimum term had a profound effect upon later fiscal policies in certain states. This type of equalization program became the dominant fiscal policy of Ohio from 1921 until 1931. It became the dominant policy in North Carolina from 1913 to 1931, when the state shifted over to a completely state-supported foundation program (also based upon a state minimum salary schedule). It has been the major policy of Pennsylvania since 1923. Present policies in Indiana, Rhode Island, and West Virginia have their roots in the programs described here.

CUBBERLEY'S INFLUENCE

The trend toward weak district aid prior to 1925 can be traced in part to Cubberley's thinking and its acceptance by his contemporaries as reflected in surveys and writings on school finance during the next decade or two. He believed that teacher grants combined with per-capita distribution would eliminate fiscal difficulties in all but a small percentage of districts. He proposed the creation of a small reserve or small fund (5 to 10 percent of total state school monies) to be distributed at the discretion of a state agency to districts which could not meet state requirements after levying the maximum tax rate. He proposed that such discretionary grants be allowed only upon formal application of the operating unit and that they be considered temporary. Cubberley was not very concerned over equalization of local tax burdens; his emphasis was placed upon equalization of educational opportunities through teacher grants and the stimulation of local

taxation. His concept of weak district aid applied to those districts that were forced to levy the maximum rate and still did not have enough funds from state and local sources to maintain state minima.¹²

Programs having certain of the features recommended by Cubberley already were in existence in four states at the time that he made his study, namely, New Hampshire, New Jersey, North Carolina, and Vermont. All of these allowed discretion to state agents in making apportionments. All of them except North Carolina involved very small appropriations or reserves. Although the maximum tax rate requirement had appeared only in North Carolina, after 1905 it became very common. The Indiana law of 1905, the Nebraska law of 1907, the West Virginia law of 1908, all were based upon the local unit levying the maximum rate. The laws in Maine, Rhode Island, and South Carolina (1909) involved very small appropriations plus central discretion. Tennessee (1909) put aside a 10 percent reserve to aid counties levying taxes at specified rates. The belief that equalization could be accomplished with very small funds persisted for nearly two decades after Cubberley's study was published. Idaho and Kansas (1911), Mississippi and New Mexico (1912), Minnesota and Texas (1915), Nevada (1917), Alabama, Connecticut, and Oklahoma (1919) all adopted small relief funds. All of the foregoing except Minnesota allowed discretion to state agents. Michigan (1921), Maryland (1922), and Illinois (1923) all adopted small fund methods of aiding weak districts, but the amounts allowed were definitely stated in the law. The Michigan law was limited to one-teacher districts.

PREVALENCE

By 1925 over two-thirds of the states had introduced weak district aid plans into their state school finance systems. Although the concept of equalization had advanced beyond this stage by that date, most of the remaining states later adopted weak district plans or laws having certain features of this type of aid. Laws adopted in Arkansas, California, Florida, and Montana in 1927 were of the weak district type. The same is true of the laws adopted in Louisiana (1930), North

¹² Cubberley, *op. cit.*, pp. 250-253.

Dakota and South Dakota (1933), Virginia (1934), Wyoming (1935), Washington (1937), Kentucky (1941), and New Mexico (1949). The recent laws of Iowa and Oregon are based upon relatively high local tax rates. Thus it may be said that every state with the possible exceptions of Arizona, California, Delaware, and Georgia have at some time had small fund, weak district aid for schools. Arizona and California (1927) apparently applied it on the county level only.

CONTRIBUTIONS AND LIMITATIONS

The attempts to assist weak districts in maintaining a minimum program for a minimum term contributed a great deal to fiscal knowledge and techniques. (1) The effects of mandatory legislation in a decentralized structure were discovered and state educational requirements and financial provisions became better integrated, but each generation seems to have had to learn for itself. The same mistakes have been repeated many times in some states like New York, but some states have learned from the experiences of others. (2) It was learned that even a very low level of educational opportunity cannot be attained everywhere in a decentralization structure unless a level of support is guaranteed in all units through state aid that would make this possible. (3) Beginning with the laws of New York and Connecticut, states began to define objectively the amount of support to be made available from state and local sources. Such grants were predictable in advance and enhanced local financial planning. Central controls inherent in the discretionary plans were minimized. (4) Various methods for defining the minimum program were devised—budgetary allowances, salary allowances, and unit cost allowances in states like North Carolina, Ohio, and Connecticut. (5) States became concerned over inequalities in local tax burdens resulting from state action to secure equality of educational opportunity, as in New York and Massachusetts. (6) Techniques for varying aid according to wealth were worked out. (7) The concept of state support to supplement the yield of a uniform local tax to produce a fixed amount of money evolved out of the experience of states like Connecticut and Ohio. (8) Techniques of apportionment involving some weighting

for sparsity effects upon costs evolved in states like North Carolina.

Most of the weak district aid plans were subject to one or more very serious limitations. (1) Most of them involved very small appropriations, funds, or reserves. Even where objective formulae were in use, the amount of funds appropriated or available were not determined by these and the aid sometimes had to be prorated. Unpredictable aids disrupt local planning, control, and management. (2) Many of the laws required districts to levy the maximum tax rate allowed before they were eligible for assistance. This meant that the state took all local taxes for the support of the minimum offering. There was no freedom for local control and initiative. (3) Often the plans were discretionary with state agencies, both as to what districts were eligible for assistance and how much assistance they were to get. This substituted state control for local control while retaining a decentralized structure and local operation. The policy had the disadvantages of both centralization and decentralization. (4) Some of the plans involved budgetary approval which made all acts of local units subject to veto and destroyed home rule. (5) Most of the programs did little to equalize local tax burdens for the support of state requirements. States through stimulation grants and mandates were usurping a large part of the local taxing power and thereby restricting the power of local self-government. (6) Where maximum rates were not prescribed, the local tax rate for participation generally was relatively high. (7) The programs generally were associated with centralization of authority—the enforcement of state minimum requirements or standards. They often were remedial devices growing out of the attempt to secure equalization of educational opportunity through mandate. (8) States had elastic standards, the standards as to term, teacher qualifications, and even salaries being lowest for the weak districts. The aid plans usually were conceived in terms of attaining compliance with the lowest standards. (9) The plans frequently were limited to elementary schools, rural schools, or one-teacher districts.

EQUALIZATION PROGRAMS EMERGE

Many trends and forces were converging to strain existing arrangements for school support after 1920. The demands for military and

industrial manpower during the war directed public attention to the educational deficiencies arising from inadequate provisions for schooling in the poorer communities and states. The drastic change in monetary values made existing state-support provisions obsolete and placed a heavy burden on the local property tax base. The shortage of teachers meeting any kind of qualifications was so serious that states had to take positive action to prevent further deterioration in the quality of schooling. The rapid industrialization of the country during the war years released thousands of youth from productive work. The secondary school became a common school as the compulsory education age was raised. Units of government established to provide a rudimentary elementary education for a few months a year were not able to support a twelve-year program. States had pursued the stimulation policy to its economic limits, considering the burden placed upon the property tax by other governmental units. Many communities were unable to adjust to the new price level because of school property tax limits, the amount of local property tax support required to meet state requirements, the high tax rates already in effect, or the sluggishness of property tax institutions in adjusting to changed monetary values. Confronted with a crisis, states attempted again to eliminate it through mandates. The resulting heavy financial demands placed upon local school government called attention to the wide differences in fiscal capacity, tax burdens, and service levels under extreme decentralization. Industrial growth tended to add to the concentration of property values in key centers. New forms of taxation were being developed to reach modern economic resources but their successful administration required large units of government. Finally, school finance was becoming a subject of serious inquiry by universities and other research agencies. Out of this research emerged new concepts and techniques for financing public education.

CHANGED EMPHASIS ON EQUALIZATION

The foregoing developments brought about a changed emphasis upon equalization. Whereas up until 1920 the weak district type of aid was regarded as supplementary to other fiscal policies except in North Carolina, soon after that date states began to shift to a policy

placing the stress on equalization. By 1925–1926 four states were apportioning over 50 percent of their state school money on an equalization plan—South Carolina (88.3), North Carolina (78), Ohio (75), and New Hampshire (54).¹³

North Carolina was the first state to change its emphasis in state fiscal policy. In 1913 it appropriated only \$250,000 for per-capita apportionment, but allowed \$375,000 for aid under its weak district type of equalization law. By an act passed in 1919, the maximum tax rate was set at \$3.50 a thousand, the state providing the difference. The money was to be used only to pay teachers' salaries and the number of teachers allowed was determined by standards established by the State Education Department. The Department had administrative control of the amount to be allowed for each teacher unit. Counties had to maintain a six-month term. In 1920 a state minimum salary schedule was adopted and the maximum rate was set at \$3.00 a thousand. The schedule varied according to the certificate and experience of the teacher—the aid being calculated upon the average cost of the schedule in a county.¹⁴ This plan remained in effect with certain minor changes until 1931.

South Carolina after 1920 began to follow the lead of North Carolina. The appropriation that year was increased 60 percent with all of the increase placed in an equalization fund. As the program evolved, a salary schedule was established as in North Carolina and the number of teachers allowed was regulated in a similar manner. After the county levied the constitutional tax rate of \$3.00 a thousand plus an additional district tax of \$4.00 a thousand, the state paid any additional amount to pay teachers according to this schedule for six months. Counties were required to support an additional month on their own.¹⁵ Although the basic program was increased and the required tax was later reduced to \$3.00, this type of equalization support remained in effect until recently.

Ohio after 1921 abandoned its policy of per-capita apportionments.

¹³ F. H. Swift, *Federal and State Policy in Public School Finance in the United States* (1931), p. 253.

¹⁴ F. W. Morrison, *Equalization of the Financial Burden of Education Among Counties in North Carolina* (1925), pp. 13 ff.

¹⁵ Swift, *op. cit.*, p. 285.

The compulsory state property tax for schools of \$2.65 a thousand was retained by the counties for school support. The state continued to appropriate money for aiding weak districts and certain special aids. The entire apportionment was left to the discretion of the State Director of Education. Grants were made only upon application. To qualify, districts had to levy a tax of at least \$9.50 a thousand. The State Director was empowered to require changes in local policies and administration. Allowances for salaries and other expenses were determined by administrative regulation. Districts participating could not exceed the salary schedules used in apportionment. Counties also were required to maintain equalization funds. This policy was the dominant one in the state until about 1931.¹⁶

Although New Hampshire after 1921 apportioned most of its school support on the weak district plan, the aid was limited to elementary districts and was not an important source of local school revenue. The apportionment was made at the discretion of the state education department, providing a \$5.00 tax was insufficient to comply with state requirements. The state had considerable administrative control over districts receiving equalization aid.¹⁷

The only significant innovations in these states were making equalization the basic policy in school support and incorporating a fixed salary schedule into the state program. All of them sacrificed other principles for equalization. North Carolina and Ohio penalized units for exceeding equalization allowances. New Hampshire and Ohio both required a high degree of central control over local operations. Ohio required a relatively high tax rate for participation as did both South Carolina and New Hampshire, considering the low level of support involved. North Carolina retained the maximum tax levy concept.

OTHER STATE ACTION

Confronted with rising costs, two other states, Maryland and Pennsylvania, soon after 1920 took steps that also represented departures from the small fund, weak district type of equalization. The Maryland program adopted in 1922 was of the small fund type and was subject to many of the limitations of weak district aid. However, the founda-

¹⁶ *Ibid.*, pp. 279-285.

¹⁷ *Ibid.*, pp. 441-442.

tion program conceived in terms of a minimum salary schedule and an allowance of a fixed percentage of the salary allowance for other current expenses, was relatively adequate in terms of other programs existing at the time. This represents the first departure from general practice at the time. The program was not designed simply to correct the worst shortcomings. Counties were required to submit budgets for approval, another carryover from prevailing practice. The number of teachers allowed was subject to state administrative regulation as in North Carolina and South Carolina, the state providing the difference between the cost of the program and the yield of a tax of \$6.70 a thousand and other forms of state aid. In spite of the fact that the tax effort required for support of the state program was not exactly low, no limitations were placed upon the levying of additional taxes to exceed the program. This represents the second departure from the practice in many other states: counties were not discouraged from exceeding the state program.¹⁸ This pattern of equalization support is still in operation in the state. During the first years of trial only about 10 percent of school aid was distributed by this method, but in recent years it has risen to over one-third, and this year approaches 50 percent.

About the same time (1921), Pennsylvania made a state minimum salary law the basis of its state support program. This was relatively high compared with prevailing practice. The state made no allowance for other current expenses as did Maryland, nor did it go very far in equalizing the burden of supporting the schedule through local taxation. The state agreed to meet one-fourth the cost in first-class districts (classified by population), ordinarily the most able fiscally, the percentage increasing for various smaller districts, reaching 50 percent in fourth-class districts, the poorest type as a group. However, the tax burden involved in raising half the salary mandate was terrific in the poorest districts. Low-valuation districts in the other classes fared even worse. To overcome these limitations, in 1923 districts were further classified according to valuation per teacher. In the lowest-valuation group the state assumed 75 percent of the cost, but even meeting one-fourth of the cost tended to place a heavy burden on the poorest units.¹⁹

¹⁸ Swift, *op. cit.*, pp. 286-291.

¹⁹ Pennsylvania State Education Association, Committee on Survey of School Costs, *Report of the Committee* (1938), pp. 111-112.

With some modifications this policy has prevailed in Pennsylvania ever since.

MORT'S INFLUENCE

All of the developments after 1920 just summarized were concerned with equalizing the local tax burden for the support of state mandates. As a result of the work of Paul R. Mort, during the next quarter of a century the emphasis on equalization has been shifting from this concept to that of minimizing of central controls through the attainment of an adequate level of support in all school districts and the use of objective formulae for determining state support. Mort's concept of a foundation program outlined in the preceding chapter assured all units enough support to finance a basic educational offering. Expressing these allowances in unit expenditures allowed communities freedom to secure optimum combinations of personnel and materials, salaries and pupil-teacher ratio, or instructional expenditures and other expenditures to attain the results desired. Under this concept mandates became an instrument of last resort to correct evils in unsatisfactory units of administration or large units in which home rule had deteriorated. The use of objective indexes avoided the unintentional shifts of control to central agents inherent in the discretionary type of grants. Furthermore, Mort always has stressed the importance of "adaptability" in financial arrangements. He has been reluctant to attain equalization at the expense of local initiative. In attaining equalization he has at the same time proposed means to strengthen local initiative through adequacy of the foundation level, moderate local tax contributions to the cost of the basic program, preservation of existing aids to wealthy districts, repeal of restrictions upon local taxing and budgetary power, and making school government directly responsive to the popular will without restraints by central agents or representative, nonschool, local government.

Through his research, teaching, writing, numerous surveys, leadership, and former students, Mort's thinking has had a profound effect upon fiscal policy in many states. Since he did his original work in New York State, the evolution of fiscal policy in that state well illustrates his influence. Prior to his studies, New York State was committed to

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stimulation grants and flat grants-in-aid as its major fiscal policy. As a result of his work between 1925 and 1931 it shifted to equalization as a major policy. As is true of most states, actual fiscal policies adopted often reflect political compromises, expedients, and gradual adjustment with vestiges of past policies remaining for a long time. As a result of legislative action, the equalization formula has been used to a large extent to distribute state-collected taxes to localities. Yet New York State has been moving toward a concept of equalization allowing for maximum local administrative freedom.

Present equalization policies in the state date from the passage of the Cole-Rice law in 1925. This act introduced a clarified concept of equalization and improved techniques for applying it through finance. The concept applied was that formulated by Strayer and Haig.²⁰ To apply the concept without losing the advantages of a decentralized structure they held that it was necessary:

1. To levy a local school tax in support of the satisfactory minimum offering in each school district at a rate which would provide the necessary funds for that purpose in the richest district;
2. To supplement the yield of the uniform local tax in all other districts by the amount required to finance the cost of the minimum offering.²¹

Strayer and Haig recognized the need for an adequate state-wide foundation program of schooling with a uniform local tax effort supplemented by sufficient state support to pay the costs of the program.

The Cole-Rice Act embodied Mort's techniques for defining and financing the Strayer and Haig concept of a foundation program supported in part by a uniform local tax. Mort defined the foundation program as including those universal elements found in schools throughout the state, together with such supplementary undertakings as are necessary to provide these elements. At the time (1923) he included within the program eight years of elementary schooling, a four-year high school plus special classes, vocational schools, continuation schools, transportation, and capital outlays. A teacher was defined as

²⁰ See p. 300.

²¹ G. D. Strayer and R. M. Haig, *The Financing of Education in the State of New York* (1923), pp. 174-175.

one possessing the minimum qualifications. The number of teachers allowed for the program was based upon average practice at the time, one for each twenty-seven elementary pupils and one for each twenty-two high-school pupils in attendance under the program. Attendance was weighted to allow for the effects of sparsity upon unit costs. Thus, rural districts were allowed lower pupil-teacher ratios without reducing their support per classroom. The cost of the program was defined as the average per-weighted-pupil expenditure for each element in the program in districts with average taxable wealth, corrected for differences in price levels and differences in pupil-teacher ratios resulting from sparsity of pupil population.²² In order to guarantee to all school districts a program equal to that found in districts with average wealth with the least outlay on the part of the state, Mort proposed using a "key district" like New York City instead of the wealthiest district in determining the uniform local tax rate required to support the program. The higher local rate resulting from the use of a key district reduced the amount of state support required.²³

The Cole-Rice Act, however, failed to attain the minimum level of equalization support visualized by Mort. At the time the elementary school program, taught by teachers having one or two years of preparation beyond high school, cost \$70 a weighted pupil (current expense only, exclusive of transportation) or \$1900 a weighted classroom in districts of average wealth; the high school program in the same districts cost about \$110 a weighted unit. The total cost of the program in the state would have been \$134,556,240. The local uniform tax of \$3.64 a thousand on full valuation would have raised \$72,257,000 toward the total cost, leaving \$62,299,240 of support to be provided by the state, or an increase of about \$23,000,000. Unfortunately, the Davenport Commission was not willing to go that far in state support at the time. The Commission would not recommend more than a \$10,000,000 increase in state support. Hence, the cost base upon which equalization support was computed was reduced from \$70 to about \$44 or \$1200 a weighted classroom unit in the elementary schools and from \$110 to about \$73 or \$1600 a classroom unit in the high

²² P. R. Mort, *State Support for Public Schools* (1926), chs. II-III.

²³ *Ibid.*

schools. These amounts were equal to the expenditure levels of the poorest 10 percent of the districts. The local uniform tax rate for support of the program was reduced from \$3.64 to \$1.50 a thousand.

The Friedsam Law (1927) has become associated with equalization. To the extent that the Friedsam Law incorporated the concepts and techniques of the Cole-Rice Law and increased the cost bases it was an equalization measure. However, the Friedsam law was primarily a property tax relief measure. It added no new elements to the state foundation program. Between 1927 and 1931 it raised the base for calculating state support for schools somewhat from \$44 to \$56 a weighted pupil or \$1500 a classroom unit in the elementary schools and from \$73 to \$86 or \$1900 a classroom unit in the high schools, or 27 and 18 percent respectively. But these amounts would have been low even in terms of 1923 practices; they were far below the approximately \$80 and \$125 required in districts of average wealth in 1926. On the other hand, the Friedsam Formula reduced the \$1.50-a-thousand local contribution to \$.60 (a 60 percent reduction). If equalization had been the primary objective, the rate would have increased when the cost base was raised. As it was, the reduction in the local rate added about \$19,000,000 (a 50 percent increase) to state support without increasing equalization. The money went to the wealthier districts which included the tax limit cities.

The Friedsam Commission was concerned primarily with the fiscal difficulties of cities over 100,000 population operating under the 2-percent constitutional property tax limit and the high total property taxes in other municipalities. It considered the possibility of authorizing local nonproperty taxes, but rejected them in favor of shifting more of the burden to state taxes through the state aid formula. This meant that over half the money apportioned under the equalization formula was not equalization support. The equalization formula was used both to equalize and to foster local initiative in the able districts. This proved to be a powerful stimulation for raising the equalization level.²⁴

The original law did not apply to districts employing fewer than

²⁴ P. R. Mort and W. C. Reusser, *Public School Finance* (1941), pp. 385-386.

five teachers. Through the pressure of farm organizations the law was extended to include all districts in 1929, but one-teacher districts had to make a higher tax contribution to the cost.

Beginning with Georgia in 1926, other states began to move in the direction of equalization programs based upon the foundation program concept, objective determination of equalization support, refined methods of apportionment, moderate local tax contributions, and the strengthening of local initiative. The next year Alabama and Oklahoma took the first step toward the Mort type of equalization program. Missouri (1931) adopted the policy. During the depression years other states incorporated many features of this kind of equalization, including Idaho (1933), Kansas (1937), Michigan (1933), Ohio (1935), Rhode Island (1936), Utah (1931), Vermont (1935), and Wyoming (1935). The trend has continued up to the present time as will be shown later.

The characteristics of these programs that distinguished them from many of the weak district equalization schemes are these: the definition of a foundation program that more nearly approached average practice rather than conditions in the weakest local units, the deemphasis of mandatory legislation, the use of objective measures instead of discretionary authority, the predictability of the grants, the use of refined measures for apportionment with weightings for sparsity and other cost factors, the attempt to unburden the local tax base for local initiative, the attempt to equalize the local tax burden for support of the basic program, and the encouragement of local units to exceed or supplement the state offering.

MEASUREMENT OF LOCAL FISCAL CAPACITY

Equalization programs combining central and local support, if they are to attain any degree of equality in the local tax burden for supporting the state basic program, involve some measure of local taxpaying ability. The older devices used assessed valuation of taxable property for this purpose. In order to overcome the limitations of local assessments, crude corrections were introduced. Later attempts were made to correct local assessments and to substitute other indices of fiscal capacity.

WEAKNESSES OF ASSESSED VALUATIONS

Since the only local tax generally available to school government is the property tax, states for equalization purposes generally have measured fiscal capacity in terms of property valuation. Where the assessment of property for tax purposes is done by local assessors, wide variations exist in standards of true valuation as shown in Chapter VI. Where local assessments are compared on some uniform standard of value, wide variations exist among assessing districts in the percentage that assessed valuation is of true valuation. This means that the attempt to measure local taxpaying capacity in terms of total assessed valuation or assessed valuation per unit (such as per-teacher unit) or the yield of a given tax rate on assessed valuation (the most commonly used method) overestimates or underestimates capacity to pay the property tax in different units of government. To the extent that states err in this respect, inequality is created in the burden of supporting the state program. Furthermore, in order to increase the amount of money obtained from state sources, the tendency is for localities to foster underassessment deliberately. Although there is a rough correlation between fiscal capacity as measured by assessments and other indexes of taxpaying ability such as income, the variability in assessments is a serious limitation in the attempt to combine state and local support in an equitable manner.

CRUDE CORRECTIONS

In the early weak district aid laws and some of the more recent equalization laws, various states have tried crude devices for preventing the underassessment of property for state aid purposes. One provision has been to prohibit districts from reducing assessments below the amount reported when the state aid law took effect, as in Arkansas. Another has been to base the calculation of state aid upon the assessments of a prior year, e.g., Minnesota and West Virginia. A third method has been to specify the yield of a specified tax rate or a tax of so much capita, whichever was the greater, e.g., New Jersey. None of these methods achieve much equity as shown by the experience of West Virginia. A fourth device has been to relate all assessments to the

state average for the year, e.g., Wisconsin. A fifth device has been to use the state average tax rate as in Maine. The last two counteract in a crude way any general tendency toward lower assessments. They do not correct for inequities among individual districts.

EQUALIZED ASSESSMENTS

The use of the property tax base as a measure of taxpaying ability to be wholly equitable requires professional, state-wide full valuation assessments. The next best alternative is adequate state supervision of local assessments as has been done in Maryland, Massachusetts, and Wisconsin. A third and most common method is state equalization of assessments. It has been attempted in a number of states, including Kansas, Louisiana, Michigan, Missouri, New York, Ohio, Pennsylvania, and Wisconsin. With the possible exception of Wisconsin, no state has made a scientific equalization of assessments. Nevertheless, some state equalization of assessments is better than none. At least, the worst inequities and abuses can be corrected.

Up to the present time probably no state having an equalization program combining state and local support and using property valuation as a measure of taxpaying ability has achieved equity in the local tax burden for supporting the state program. Yet it can be said that such programs have reduced inequities in local tax burdens existing under previous policies. Certainly the method has more equity in it than any other policy except a completely state-supported program or the use of economic measures described below. Furthermore, the inequity in tax burden is unimportant compared with the attainment of a higher level of school support through combining state and local effort. Yet much needs to be done to correct and equalize local assessments.²⁵ This is still a major unsolved problem in this type of equalization program.

OTHER MEASURES OF FISCAL CAPACITY

For larger units of local government such as counties it is possible to construct an index of taxpaying ability from basic economic statistics. Cornell developed a formula based upon total population, retail

²⁵ P. R. Mort and A. W. Schmidt, *Technical Aspects of State Aid* (1947), pp. 21-22.

sales, motor vehicle registrations, production, number of residence telephones, savings deposits, and postal receipts.²⁶ Bacon developed techniques for measuring the fiscal capacity of counties in terms of income.²⁷ A third technique is to compute the yield of a group of nonproperty taxes by counties and large cities. Although the study was not conducted for this purpose, the data obtained by Walker and Cocking could be used to estimate the fiscal capacity of counties.²⁸

The validity of all of these techniques depends upon the independent criterion used to appraise them. A clear-cut definition of taxpaying ability is not easy to make. Limitations of original data, weighting of factors, and keeping the index up to date present technical difficulties. Yet these may be no greater than those involved in appraising property. All of the indexes appear to be superior to assessed property valuation. They may have no advantage over equalized valuations in their present stage of development. They may lack the simplicity, stability, and public acceptance of the assessed valuation statistic, but they may be more objective and equitable. They can be made relatively simple. As to stability, the Cornell index may rank highest, the yield of nonproperty taxes second, and income third. Stability in an unstable economy means lack of equity. In the final analysis, taxpaying ability in our type of economy comes back to income no matter what the tax or the tax base. Studenski has suggested an index combining an income measure with other economic indices weighted a little more heavily on the income side.²⁹

The techniques developed by Cornell have been applied for a number of years in the apportionment of equalization support in Alabama. Recently Florida and West Virginia have adopted similar indexes pending the attainment of 100 percent on full valuation assessments and in 1949 Texas began to use an index. The Alabama index is based upon the percentage of the state total sales tax paid, passenger and

²⁶ F. G. Cornell, *A Measure of Taxpaying Ability of Local School Administrative Units* (1936).

²⁷ M. A. Bacon, *Income as an Index of Fiscal Capacity of Michigan Counties* (1941).

²⁸ Mabel Walker and W. Cocking, *The Potentialities of Local Non-Property Taxes as Fiscal Instruments in New York State* (1947).

²⁹ Paul Studenski, *Measurement of Variations in State Economic and Fiscal Capacity* (1943).

automobile license paid, state personal income tax paid, assessed valuation of public utilities, farm income, and value added by manufacture weighted according to a prescribed formula. The Florida index is of the same type, using six weighted factors. The West Virginia law is based upon eight factors, including retail sales, passenger-car registration, buying power, population, income tax returns, total income, postal receipts, and consumer sales tax receipts. All of these are based upon the county unit. Data are not available for applying them to small units of government. Although their validity is questionable when the property tax is the sole local tax for school support, such indexes will have a wider application as new nonproperty local taxes become more common. These taxes cannot be administered successfully in units smaller than the county or the larger cities. The experience of Texas in applying the index to smaller units should be watched carefully.

DIVISION OF SUPPORT BETWEEN CENTRAL AND LOCAL GOVERNMENT

A fundamental problem in the development of equalization programs combining central and local support is the division of support between the two units. State fiscal capacity or, more frequently, availability of revenues on the state level is the factor that usually determines the allocation, but, in theory, the division of support should be settled by striking a balance between the equalization objective and the objectives of (1) strengthening local taxing power for the exercise of local initiative and (2) equalizing the burden of support. Both types of equalization should be considered—equalization of the amount of support and equalization of the local tax burden.

IMPORTANCE OF FOUNDATION PROGRAM

In determining the division of support between the central and local governments priority must be given to the adequacy of the foundation program. Without an adequate level of support guaranteed in all districts, state support will not accomplish its primary objective, the guaranteeing of a reasonable degree of equality of opportunity to every person. Even adaptability or initiative requires an adequate foun-

dation program for its healthy operation.³⁰ Before any decisions are reached on other matters of policy, this level must be agreed upon. Ideally the state should provide the difference between this cost and the local yield of a tax rate sufficient to produce the entire amount in the wealthiest district as is done in Utah. Otherwise, inequality in the burden of support is inevitable. This procedure, however, often requires the state to assume a large part of the burden of support of the basic program, but it is not quite as expensive to the state as a completely state-supported program. Before any compromises are made on the level of the foundation program, the rate of local contribution should be increased until the state share of the cost is equal to the amount that can be made available from state sources.

IMPORTANCE OF LOCAL TAX LEEWAY

Unless the state is willing to assume a reasonable share of the burden, two results will follow from raising the rate: (1) less support for some districts under the formula than they are receiving under existing laws and (2) a local tax rate which is too high to foster local initiative. The first problem can be handled with some type of minimum guarantee without adding greatly to the state cost. Although this approach generally is supported upon political expediency, there is a more cogent reason for it. State support to wealthy districts releases local taxing power for improvement or adaptability. As the rich districts move ahead, the stimulus for improving the equalization level increases. This gives equalization a broader meaning. It is not simply equalizing what exists, but the attainment of a rising level of equalization. Equalization in education should increase like other living standards in a private-enterprise economy. In both the stress is on "leveling up," not "leveling down."

STRIKING A BALANCE

The problem of a high local rate of contribution is more serious. It presents a most difficult decision. Should the rate be reduced with a corresponding decrease in the level of support to be maintained?

³⁰ P. R. Mort and F. G. Cornell, *American Schools in Transition* (1941).

Should the level of support be maintained at the expense of the high local rate? New York State faced this problem during the 1948 session of the legislature. A study of fiscal policy had pointed to a foundation program of \$200 a weighted elementary pupil as the lowest amount the state should guarantee under present price levels and personnel shortages.³¹ To preserve local taxing power for the exercise of local control and initiative it did not seem desirable to recommend any increase in the existing mandatory local school tax rate of \$5.00 a thousand on full valuation.³² The total program based upon \$200 a weighted pupil would have cost about \$375 million. Under a \$5.00 tax the localities would pay \$135 million, leaving \$240 million to be met from state taxes. In terms of prevailing levels of income and the fact that the state tax burden in New York was below average, it seemed that the state had the fiscal capacity to pay this amount. Nevertheless, state fiscal authorities would not agree to assuming over \$182 million of the cost. This meant either a reduction of the basic allowance, an increase in the local contribution, or a combination of both. What actually happened was a moderate reduction in program level through reductions in the weighting allowed for sparsity and secondary schools and an increase in the local rate to \$7.00 a thousand. Educators were not satisfied with this compromise, but several factors counseled them not to oppose it actively. (1) They were not convinced that the state lacked the taxpaying capacity to lower the rate to \$5.00 and thought that such a reduction could soon be obtained. (The rate was reduced to \$5.66 in 1949.) (2) They believed that the existing state minimum salary law would force a reconsideration of weighting. (3) New local taxing powers were made available to cities and counties which might reduce the pressure on the property tax base. (4) Existing tax rates were well above the \$7.00 level due to the failure of assessments to adjust to the higher price level. (5) They were convinced that the \$200 level was essential to prevent any further deterioration in school programs and staffing.

³¹ P. R. Mort and A. J. Burke, *The Cost of a Defensible Foundation Program of Education in New York State* (1947).

³² P. R. Mort, *Fiscal Policy for Public Education in the State of New York* (1947), pp. 32 and 41 ff.

EQUITY IN THE LOCAL TAX BURDEN

One additional test should be applied: How well has the local burden for supporting the program been equalized? Unless the local tax rate required to support the basic program equals or is less than that necessary to support the program in the richest district, inequity is introduced into the burden of support. Every district that can raise the amount required for the foundation program at a rate lower than that used in the equalization formula gets a tax advantage. It was for this reason that Strayer and Haig proposed using the rate required in the wealthiest unit. In a county unit state like Utah this may be sound both in theory and practice. However, in a small-district state like New York the wealthiest district may be a freak district, and the rate required would be so low as to make the program virtually state-supported. It was for this reason that Mort used a key district—the wealthiest large district or some larger district a little farther down the scale. If the number of districts that can finance the program with a lower tax rate than that required in the key district is not large, the inequity in the burden of support is not great. It probably is not so serious as the inequities resulting from imperfect measurement of local fiscal capacity. On the other hand, if the rate is so high that about half the state is excluded from the equalization formula since the units can raise the funds with a lower rate, then the equalization program presumes a relatively high degree of inequity in the burden of support.³³ In New York State the \$7.00 rate (1948) excluded districts with over \$29,000 of full valuation per weighted pupil. Since the districts excluded represent only a small fraction of the state, the inequity in the tax burden was not great. Only a sprinkling of districts could raise \$200 a weighted pupil with a lower tax rate.

CURRENT EQUALIZATION PROGRAMS³⁴

It has been difficult for some states to maintain equalization programs combining central and local support as a major phase of fiscal

³³ Mort and Reusser, *op. cit.*, pp. 442 ff.

³⁴ Based on laws enacted in 1947, 1948, and 1949 and materials published by the National Education, State Education Departments, and State Education Associations. To bring these up to date use National Education Association, *State School Finance Systems*.

policy. There has been a tendency to revert to policies which benefit able districts as did the older policies of tax sharing, per-capita grants, and crude state-supported equalization programs. Among the states which have gone through this cycle in recent years are Colorado, Kansas, New Mexico, Michigan, New Jersey, New York, Ohio, and South Carolina.

Nearly half (twenty-one) of the states (1949) including Alabama, Arkansas, Florida, Idaho, Illinois, Indiana, Kansas, Maryland, Massachusetts, Mississippi, Montana, New Hampshire, New York, Oklahoma, Pennsylvania, Texas, Tennessee, Utah, Vermont, West Virginia, and Wisconsin, have such equalization programs as the dominant or major policy. The rest of the states except Arizona, Connecticut, Delaware, North Carolina, and South Carolina have weak district or supplementary programs of this kind.

CURRENT TRENDS

Certain tendencies and characteristics in current equalization programs of this type should be noted. (1) There is a growing tendency to include transportation and capital outlay or debt service allowances in the foundation program. (2) There is a tendency to extend the foundation program downward to include kindergartens and upward to include services for youth and adults. Often this is done before adequate allowances are made for the established program. (3) There is a tendency to define the foundation program more in detail through the use of minimum salary schedules and allowances for particular functions in the budget, particularly in the southern states. This centralizing tendency should be watched critically. (4) There is a tendency to adjust cost allowances upward with the rise in prices. (5) Increased use is being made of weighted, objective measures for apportionment with some reduction of the pupil-teacher ratios presumed as normal. (6) There has been improvement of the techniques of measuring fiscal capacity. (7) The tendency seems to be to raise the rate of local contribution to a degree that may hamper local initiative. Of course, an adequate level of equalization support is essential to foster local improvement.

PROGRAMS OF EQUALIZATION STATES

The basic patterns of equalization support in Maryland, New York, and Pennsylvania already have been described. The allowance in New York has been increased to \$200 a weighted pupil in average daily attendance with a 5.66-mill local contribution. Maryland now finances a basic schedule of teachers' salaries ranging from \$2200 to \$3800 using classroom units with a 6.5-mill local contribution. Pennsylvania has raised its salary allowance to \$2450 a classroom unit, which is to increase to \$3450, using average membership as a measure of need, and a uniform local tax rate as a measure of ability (now 4 mills).

Ten of the states have programs having many of the characteristics of the Maryland scheme, namely, salary schedule or salary allowances plus allowances for other current expenses with apportionment on a classroom unit basis. (1) Alabama allows the State Board of Education to fix the allowances. At present, the salary schedule runs from \$1200 to \$2400. (2) Arkansas still has vestiges of the "budget deficit" concept and the "maximum levy" concept. Its salary allowances range from \$747 to \$2420. (3) Florida's program extends from kindergarten through junior college and adult education. Its salary allowances vary from \$1000 to \$3600. (4) Idaho requires both the county and the school district to contribute to the cost allowances. The salary allowances are from \$1200 to \$2250. (5) Indiana has salary allowances of \$1800 to \$3800 plus \$1000 a classroom unit for other current expenses. (6) Mississippi employs the budget deficit concept with considerable latitude given the Education Department, but objective measures are used. It allows \$789 for Negro teachers' salaries and \$1372 for white. (7) Oklahoma like Arkansas requires a relatively high local effort. Its salary allowances range from \$1500 to \$2900. (8) The Tennessee program is defined in considerable detail. It has salary allowances from \$1179 to \$2826. (9) The new Texas program is like that in Tennessee with a schedule ranging from \$1395 to \$4032 plus \$350 to \$400 for other current expenses. (10) West Virginia has a very good sparsity correction. The salary allowances range from \$1305 to \$2934.

Eight of the states follow the New York pattern of unit cost al-

lowances. (1) Illinois allows \$160 an elementary attendance pupil. (2) Kansas allows \$2000 to \$2800 an elementary classroom unit depending upon teacher qualifications (no allowance for secondary schools). (3) Massachusetts uses the census as a measure of need, allowing \$130 a pupil. (4) Montana allows \$172 a pupil belonging in elementary schools and \$207.50 in high schools. (5) New Hampshire uses weighted membership, allowing \$75 a weighted elementary unit. (6) Utah has a pure equalization program in which the richest local unit receives no state support for the foundation program. The allowance is \$3300 a weighted elementary classroom unit. (7) Vermont allows \$25 a pupil plus a percentage of the school budget minus 5 percent of town taxes for all purposes. (8) Wisconsin combines equalization with matching to provide a program of \$135 to \$153 a pupil in average daily attendance in the larger districts.

SUPPLEMENTARY EQUALIZATION PROGRAMS

In the remaining states with equalization programs, other policies prevail and equalization is merely supplemental. At one extreme are six states with weak district aid plans still in operation, including Kentucky, Nebraska, New Mexico, North Dakota, South Dakota, and Virginia. On the other extreme there are two states that are approaching a fairly adequate level of equalization through supplementary programs—California and Washington. Two others (Louisiana and Oregon) are outstanding compared with the relatively low levels of support attained through most such programs.

(1) California. In 1945 California took its first step toward equalization combining central and local support. The foundation program now includes attendance from the kindergarten through the fourteenth year (junior college). Transportation or debt service and capital outlays are not included, but transportation aid has been placed upon an equalization basis. The program is based upon unit current expenditure allowances of \$153 a pupil in elementary schools and \$210 in secondary schools. There is liberal weighting for sparsity. The state pays the difference between the elementary cost allowances and a 5.5-mill (4.5 in small districts with somewhat lower allowances) tax on 90 percent of assessed valuation and the difference between the high-school cost

allowances and a 5.0-mill tax (3.2 in small districts with somewhat lower allowances) on the same valuation basis. For junior college the rate is fixed at 2.2 mills.

(2) Washington. The new (1949) supplementary equalization program of Washington guarantees about 65 cents for each day of weighted attendance and about \$1400 for each certificated person employed or 45 cents for attendance plus almost \$2300 per teacher. The latter provision provides a crude correction for sparsity. The combined allowances exceed the California allowances and approach those of New York. As shown in Chapter XII the program is probably the broadest financed by any state. Localities must levy 10 mills on 50-percent assessment.

(3) Louisiana and Oregon. Louisiana allows for salaries ranging from \$1200 to \$3600. Oregon allows 75 cents for each day of membership.

(4) Others. Equalization programs combining central and local support are an important part of fiscal policy for schools in Colorado, Michigan, New Jersey, and Ohio, but none of these programs is very outstanding. Colorado allows \$2000 a weighted classroom unit. Michigan provides \$126 a weighted pupil (average daily membership). New Jersey allows \$94 a weighted pupil in average daily attendance. Ohio makes provision for \$102 a pupil in average daily membership.

None of the remaining programs is particularly noteworthy. The Georgia program is designed primarily to help districts with current expenses other than salaries. The program in Minnesota is similar to that in Michigan. The Iowa program is slightly better than that of Ohio. The programs in Maine, Nevada, and Rhode Island are in the same class with Colorado. Wyoming allows \$2800 a classroom unit. The Missouri program is as outmoded as its state-supported program —\$750 a classroom unit.

APPRAISAL OF CURRENT POLICIES AND PRACTICES

The two major considerations in equalization programs combining central and local support are (1) the adequacy of the level of support and (2) the effect of the local burden of supporting the program upon tax leeway for local initiative or adaptability. Other important consid-

erations are the degree of freedom of choice possible within the foundation program, the degree of equity achieved in equalizing the local burden of support, the objectivity of the method of apportionment, the predictability of the amount of central support to be received, and the integration of the finance program with state mandates, requirements, and regulations. Since the appraisal of the many technical details requires a comprehensive study of each individual state, this treatment will be limited to certain broad generalizations.

ADEQUACY

The chief advantage of an equalization program combining central and local support is the attainment of a relatively high level of equalization support without placing an undue burden upon the state revenue system. About a fourth of the states are securing this advantage now. Yet most states pursuing the policy have not realized the potentiality. Some of the southern states have attained a fairly defensible level considering their economic resources, but the levels generally attained are far from adequate using the same standards applied to completely state-supported programs. The poorer states generally have stressed equalization at the expense of other criteria. On the other hand, the more able states usually have stressed other fiscal policies at the expense of equalization. Sometimes this has come about through drastic tax limits as in Ohio and Michigan. In most cases, including these, the political power of the more favored sections has been a factor. Lack of comprehension of the meaning of equalization always is a drawback. Too frequently it is conceived only in terms of correcting the most intolerable conditions—the modern version of weak district aid.

On the basis of the criterion of \$200 a weighted pupil, eight to twelve of the states in this group are approaching an adequate level of equalization support today. New York has such a program. California, Illinois, Montana, Oregon, Washington, and Wisconsin are approaching it. Florida, Indiana, Louisiana, Maryland, and Texas may come close as teachers advance on their salary schedules. None of these programs is perfect. All of them are current expense programs except Florida. Only five include transportation costs (Florida, Maryland, Indiana, Texas, and possibly Washington). Indiana has crude per-pupil

allowances for transportation and Washington uses a matching formula. New York and California equalize transportation as a special aid, which still leaves inequality in the burden of support. Montana and Wisconsin use a matching formula for transportation. Maryland has a separate allowance for debt service or capital outlays and provides some aid on a matching basis. California and Washington provide aid for buildings as a separate quota. New York limits building aid to reorganized districts using a separate equalization formula. New York and Wisconsin districts are not forced to maintain the minimum program and there is a crude sparsity correction (except for reorganized districts in New York) plus some penalties for small districts. Washington also has a crude sparsity allowance. Some of them have relatively high tax rates for the local support of the program which may hamper local initiative and do introduce some inequality in the burden of support. Under the tax limit law of Washington, equalization districts have no taxing power to exceed the state program. To some extent this is true of the tax limit cities of New York State.

Adequacy cannot be judged solely in terms of the amount of support guaranteed per weighted unit. Sometimes there is little weighting for sparsity in the formulae and sometimes relatively high pupil-teacher ratios are presumed in weighting. Both of the limitations mean low teachers' salaries and low qualifications for staff or numerical inadequacy of staff, which means meager services or class size too large for effective teaching. Furthermore, the allowances must be scrutinized to determine whether only teachers' salaries or only current expenses are included. After allowing for such factors another nine states are approaching or are slightly above the national average expenditure level in equalization support (Massachusetts, Michigan, Minnesota, New Jersey, Ohio, Pennsylvania, Utah, West Virginia, and Wyoming). However, this is a very inadequate criterion.

States differ widely in their definition of the foundation program. A twelve-year program of elementary and secondary education is almost universal. Kindergartens appear in a number of current programs. However, the thirteenth and fourteenth years are specifically recognized only in states like California, Florida, and Washington. Adult education is specifically provided for in Florida and New York.

Night schools, summer schools, and parental schools appear in some programs like those of New York and Washington. Special services are provided for in states like Tennessee, Texas, and Washington. No doubt the tendency to broaden the foundation program will continue, but caution should be exercised. Unless the cost allowances are realistic, equalization does not materialize. The new elements appear only in the most able districts unless enough is allowed to meet the costs actually involved in the districts with below-average taxpaying ability. It is very easy for allowances under a foundation program to become special aids, benefiting only the wealthy districts.

LOCAL INITIATIVE

It is difficult to estimate the effect of tax rates for support of the basic program upon local initiative without knowing assessment practices. If applied to full-valuation assessments, the rates required in Arkansas (18 mills), Idaho (8 mills), Indiana (8.5 mills), Mississippi (10 mills), New Jersey (10 mills), Oklahoma (15 mills), Utah (10 mills), and Wisconsin (9 mills) would seem to leave little leeway for the exercise of local initiative. The same criticism would hold for the supplementary equalization programs in states like Iowa (7 to 17 mills), Maine (about 20 mills), Oregon (7 mills), Rhode Island (8 mills), Washington (10 mills), and Wyoming (8.5 mills). High local contributions earmark most local support for the state program and limit the power to exercise local freedom.

Another test of the goodness of provisions for adaptability is the presence of well-supported school systems that act as lighthouses and incentives for improvement. This test already has been applied to states in which other fiscal policies predominate. It will be applied here only to the fifteen states that in 1948 stressed equalization programs combining state and local support. Of this group, only Massachusetts and New York contained well-supported school systems. However, eight of the fifteen had schools that are approaching a reasonable degree of adequacy in support—Florida, Idaho, Maryland, New Hampshire, Oklahoma, Pennsylvania, Utah, and Vermont. The remaining five lack economic strength—Alabama, Arkansas, Mississippi, Tennessee, and West Virginia.³⁵

³⁵ National Education Association, *Still Unfinished* (1948), pp. 9 ff.

APPLICATION TO FEDERAL SUPPORT

The same conditions that have centered attention upon equalization on the state level make it inevitable on the federal level. It has been demonstrated elsewhere in this volume that certain states simply do not have the fiscal capacity to support a reasonable level of schooling at the present time.³⁶ It appears that most of these states have the basic raw materials for a higher standard of living, but economic barriers must be removed and the productivity of the people increased. Both of these will take a long time to achieve and the latter depends to considerable extent upon the kind of education that can be made available in the meantime. There are signs of economic improvement in these states especially since the war. Yet the survival of our nation in the decades immediately ahead probably cannot wait for long-term developments. The equalizing of national educational provisions not only will hasten the economic development of such states, but will benefit the whole nation through improvement of our industrial and military potential, civic competence, and cultural status.

There are no fundamental differences between the principles and techniques of equalization through combining state and local support and those involving federal and state support. Mort developed the principles and techniques for a national equalization program in two studies published about a decade ago.³⁷ The measures used in apportionment need not be quite so refined, but the measures of fiscal capacity must get at the ability of a state to pay all types of taxes, not a single tax as in the case of most school districts. Probably the best single index of fiscal capacity of states at the present time is one based upon income.³⁸ Recent federal aid bills have used this index. However, the bills themselves have been concerned with correcting the worst evils. The foundation program has been very low (\$55 a census pupil) and there has been no correction for sparsity of population.³⁹

³⁶ See chs. III, and VIII.

³⁷ P. R. Mort, *Federal Support for Public Education* (1936); and P. R. Mort and E. S. Lawler, *Principles and Methods of Distributing Federal Aid for Education* (1939).

³⁸ F. L. Johnson, *The Principle of Equalization as Applied to the Allocation of Grants-in-Aid* (1947), ch. IX.

³⁹ *Educational Finance Act of 1949* (S 246).

Federal aid legislation, like state aid legislation, is in the weak district stage. Perhaps it is impossible to advance without repeating steps which a former generation has found inadequate.

SUMMARY

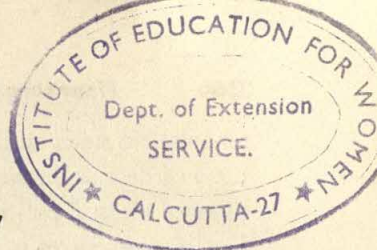
Almost every state at some time has had an equalization program combining central and local support. Originating in Massachusetts in 1874 and spreading to a few other states before 1900, the policy has gained increasing acceptance in the past fifty years. In 1949 it was the dominant policy in nearly half the states, and all except five states had such a policy.

The early equalization programs of this type were conceived as a means of securing adherence to low minimum standards in the weakest local school districts—a concept which still exists in some states. However, there is a growing tendency to conceive the equalization program as a means of attaining an adequate level of school for all, with an equal tax effort by all local units, and with a maximum of local operational freedom. By combining central and local support it is possible to attain a higher level of adequacy than can be attained by other school finance policies. An adequate equalization program reduces the necessity for state mandates and other centralizing tendencies. Where they do not require a tax effort which strains local resources, such programs release local taxation for initiative or adaptability.

Adequate equalization programs combining state and local support must be attained. Most states have not secured the conditions essential for measuring local fiscal capacity. There is a lag in applying available techniques and the techniques themselves can be improved a great deal. Most states have not achieved adequacy and most states have given little attention to tax leeway. Frequently the equalization formula is such as to apportion proportionately more support to the wealthier school districts. In effect, such programs do not differ very much from tax sharing or per-capita grants. Extension of the equalization policy to federal support has encountered intense opposition. Yet it is essential to attain adequacy in many states.

READINGS

Bittermann (5), chs. VIII, XVII, XVIII, and XXI; Cornell (30); Covert (32); Cubberley (38); Cyr, Burke, and Mort (39), chs. VI-VII; Edwards and Richey (56); Grace and Moe (73), chs. VI-IX; Harry (79); Johnson (88); McGuire (101); Morrison (107), chs. IX-X; Mort (109), chs. III-VIII; Mort (111), chs. II-VI; Mort (112); Mort and Burke (113); Mort and Lawler (116); Mort and Reusser (118), chs. XVII-XXI; Mort and Schmidt (119); National Education Association (129 and 130); Schmidt (155); Simpson (160); Spencer (165); Strayer and Haig (167); Swift (171), chs. XIII-XIV.



CHAPTER XIV

Subventions to Promote Central Purposes

It has been shown that states for a century or more have used central finance to promote locally operated and supported school systems. Yet states, especially during the past fifty years, have attempted to direct the development of local educational programs through mandatory legislation, standardization, and special aids, but the last did not become general until toward the close of the nineteenth century. About that time, specialization and state school administration had advanced to a degree that caused concern over the inadequacies of educational provisions under extreme decentralization. Grants-in-aid were used to stimulate the employment of qualified teachers, the standardization of schools, and the expansion of the school program. States also began to use central finance to bring about structural reorganization. During the first two decades of the present century the use of central aid to direct local school development continued to gain acceptance. With the development of equalization programs after 1920, the policy began to wane. Nevertheless, special aid provisions remain in most state school finance systems largely because of federal fiscal policy. Some states continue to use the device to promote local acceptance of new undertakings.

The conflict between the objectives of promoting a decentralized school system and central direction of its development became clear as school finance became a subject of serious study. Yet few states have followed consistent fiscal policies. No state had deliberately taken all of the steps leading to central control, finance, and operation of

schools. No state, on the other hand, has fully recognized the implications of decentralization for central fiscal policy. Most states pursue a mixture of fiscal policies that are difficult to harmonize. A major problem in most states is to clarify the direction in which the state is to move—toward further centralization or toward a strengthened form of decentralization.

DECLINING IMPORTANCE OF SUBVENTIONS FOR PROMOTION

A distinction must be made between special aids that promote local educational development in certain directions and special aids to promote the formation of larger districts, more economical administration, and the handling of such undertakings as nonresident tuition, transportation, capital outlays, and other special problems. Although all special aids are subject to serious limitations, this section is devoted primarily to aids which substitute central direction for local initiative in determining the nature of education itself.

EARLY DEVELOPMENTS

No comprehensive study has been made of the development of promotional aids within the various states. Neulen's study deals with the period 1913 to 1923.¹ Since specific grants of this type frequently appear for a short period and then disappear to be replaced by others, a thorough study would require an analysis of statutes, appropriations, and state educational authority practices year by year. The present treatment will be limited to New York, Minnesota, and Connecticut, three of the states that have made the greatest use of stimulation grants in the past.²

The first grant of any kind provided in New York (1790) was to promote the establishment of private academies. In 1834 the Regents attempted to stimulate the purchase of books and apparatus in academies by grants earmarked for that purpose.³ At the same time, the Legislature tried to stimulate the training of common-school teachers in academies by grants to be matched by local funds.⁴ No stimulation

¹ Lester N. Neulen, *State Aid for Educational Projects in the Public Schools* (1928).

² F. H. Swift, *Federal and State Policies in Public School Finance in the United States* (1931), p. 197.

³ Laws of 1834, ch. 140.

⁴ Laws of 1834, ch. 241.

aid was provided for common schools until 1864 when a supervision quota was provided for cities employing a superintendent or supervisors of instruction.⁵ In 1887 a special quota was provided for academic departments in union free school districts.⁶ However, compared with the total state apportionment for equalization or general aid, the amount of special quotas was small prior to 1900.

With the creation of a strong state education department in 1904 when the common schools were brought under the Regents, the state became concerned with promoting new educational projects. A non-resident tuition quota had been introduced in 1903. In 1908 quotas were provided for industrial, trade, agriculture, mechanical arts, and homemaking teachers. In 1915 farm-school teachers were added; in 1916 pschical-education teachers; in 1917 directors of agriculture; in 1921 Americanization teachers; and in 1923 teachers of special classes for the mentally retarded. In 1924 special aids for medical inspection, school nurses, health teachers, and teachers of special classes for the physically handicapped appeared. In 1925 the state added quotas for transportation and buildings in central schools.⁷

In 1925 the following special aids designed to direct local educational development existed in New York State: (1) employment of superintendents, physical training teachers, directors of agriculture, medical inspectors, school nurses, and vocational guidance teachers; (2) maintenance of high schools, vocational departments, part-time or continuation schools, evening schools, adult immigration classes, special classes for subnormals, special classes for the physically handicapped, farm schools and teacher training classes; and (3) the purchase of books, apparatus, and other instructional materials in high schools. State aid was being apportioned upon twenty-seven different bases. At that time, the state began to stress equalization and in 1930 repealed most of its special aids.⁸ The only ones remaining now are transportation, district reorganization, school lunches, and education of the handicapped.

⁵ Laws of 1864, ch. 555.

⁶ Laws of 1887, ch. 709.

⁷ W. W. Soper, *Development of State Support of Education in New York State* (1933), pp. 39 ff.

⁸ *Ibid.*, p. 50.

The development of special aids in Minnesota and Connecticut paralleled their development in New York. Special aids appeared in Minnesota in the following order: approved high schools (1878), library books (1885), graded schools (1895), standard rural schools (1899), teacher training in high schools (1906), vocational departments (1909), commercial departments, special classes for defectives, and nonresident tuition (1915), evening schools (1917), and special classes for the crippled (1921).⁹ Later, transportation was added. Today the only ones remaining are transportation, vocational education, handicapped pupils, and teacher education in high schools. Connecticut provided aid for evening and Americanization classes in 1885, followed by supervision and transportation (1903) and trade schools in 1907.¹⁰ For years it also had special aids for physical examination of pupils, school libraries and apparatus, special classes for the handicapped, and high-school tuition. In 1947 all of these were repealed except special education for the physically handicapped, transportation, and vocational education.

TWENTIETH-CENTURY PREVALENCE

In 1913 all states except Georgia, Oregon, and Wyoming had some type of special aid. Forty different projects were being subsidized by the forty-five states. However, these include transportation, district reorganization, capital outlays, and certain other grants which are not included in this treatment because they did not subsidize particular educational offerings or services. In order of frequency, the projects that implied central direction of the educational program included: agriculture, home economics, libraries, manual training, industrial training, teacher training, evening schools, and the employment of superintendents. Although appearing less frequently, such projects as the following also were being stimulated: care of defectives, rural school improvement, supervisors, Americanization, part-time classes, graded schools, purchase of textbooks, summer schools, adult classes, purchase of apparatus, Negro education, commercial education, home training, parental schools, and medical inspection.¹¹

⁹ Minnesota, Interim Committee on Education, *Report* (1941), pp. 53-61.

¹⁰ Helen M. Walker, *The Development of State Support and Control of Education in Connecticut* (1926), pp. 59 ff.

¹¹ Neulen, *op. cit.*, pp. 8-9.

By 1920 every state was using central finance to direct change in local policies or practices. The stimulation of war demands greatly increased the number of states subsidizing teacher training, home economics, care of defectives, evening schools, supervision, Americanization and adult education, part-time classes, vocational training, and physical training. The states making the greatest use of the policy up to that time (1923) were in order of rank: Minnesota, South Carolina, Connecticut, Rhode Island, New York, Pennsylvania, Maine, Wisconsin, Vermont, New Jersey, Tennessee, Maryland, Delaware, Massachusetts, Texas, Virginia, South Dakota, and Iowa. The states making very little use of it included: Kentucky, Georgia, Oregon, Idaho, Illinois, New Hampshire, New Mexico, Mississippi, Colorado, and Utah.¹² As will be shown in a later section, certain of these developments in states can be traced to federal policy after 1917.

PERIOD OF DECLINE

During the past quarter of a century there has been a drop in the number of states using central aid to influence local practice, many of the special aids have been discontinued, and special aids have become a less important part of policy in most states. At least five states—Delaware, Montana, Nevada, North Dakota, and South Dakota—in 1947–1948 had no aids of this type. Florida, Idaho, Kansas, Mississippi, New York, and Oregon have practically eliminated the practice. Of the eighteen states which had the largest number in 1923, all except Maine, Maryland, New Jersey, and Virginia have relatively few now. Although the policy is waning, it still persists in about forty-three states. In some states, such as Arkansas, Illinois, Louisiana, Michigan, Oklahoma, and West Virginia, there has been no significant change. Although many of the older special aids have been discontinued, some states use the device to stimulate new undertakings.¹³

The fiscal importance of special promotional aids was relatively insignificant in most states in 1947–1948. Illinois and Virginia apportioned over 10 percent of their state assistance for schools as stimulation grants. Louisiana, Maine, Missouri, New Hampshire, and New

¹² *Ibid.*

¹³ Based upon 1947–1948 appropriations, and National Education Association, *School Finance Systems* (1948).

Jersey apportioned approximately 10 percent on this basis. Approximately 5 percent of state support was for promotional purposes in Alabama, Arkansas, Georgia, Nebraska, Texas, and Wisconsin. In the remaining states the amounts for promotional aids were less than 5 percent of the total apportionment.¹⁴

EXISTING SPECIAL AIDS IN STATE SCHOOL FINANCE

The most common special aids for particular educational developments are the federally aided programs for vocational education, special provisions for the handicapped, and school lunches. In 1947-1948 thirty-two states reported that they provided special aid for vocational classes; and twenty-five for the handicapped. Only ten reported school lunch programs.¹⁵ This means that many states fail to report one or more of these special aids since they are federally sponsored. For example, New York has no special aid for vocational classes, but it does handle the school lunch program as a special aid although the reports do not show this to be true. Massachusetts reports no special aid for vocational education, but it does have such aid. The most common state stimulation grants (1947-1948) were those for textbooks (seventeen states), supervision (eleven), and adult education (nine). From one to four states still have grants for libraries, teacher education, medical inspection, physical education, evening schools, standard rural schools, audio-visual aids and Indian education.

As in the past, new undertakings continue to receive stimulation aid. At least five states, Maryland, Michigan, Mississippi, New York, and Pennsylvania, now have special grants for junior colleges. Among other new types of grants appearing are sick leave (e.g., Alabama and Tennessee), audio-visual aids (e.g., Arkansas), veterans' education (e.g., Louisiana), visiting teachers (e.g., Michigan), nursing service (e.g., Pennsylvania), adult education (e.g., Utah), and nursery schools and recreation programs (e.g., Washington).

A number of existing special aids do not directly affect the control of the school program. They should be handled within the foundation program. In this group should be included transportation, building

¹⁴ *Ibid.*

¹⁵ *Ibid.*, and *The Forty-Eight State School Systems*, p. 230.

aids, tuition allowances which are still paid as a special grant in at least ten states, and aids for consolidation which are found in at least seven states.

STIMULATION WITHIN THE FOUNDATION PROGRAM

Certain features of modern state foundation programs might be classified as stimulation grants. When an element is included in the state program before it has become universally accepted locally, it becomes a means for promoting the acceptance of the element. New York State over twenty years ago included special classes and part-time classes in its basic program for equalization support. Such undertakings were not universally supported at the time. Although they are more common today, they are still not universally offered. When New York State included kindergartens in its foundation program in 1942, kindergartens were provided in the majority of the larger districts. In spite of the fact that they are part of the foundation program, they are not yet universally provided. When the state included adult-education classes, summer schools, and night schools in 1945, these undertakings were found in less than half the large school systems of the state. They have appeared in more school systems since 1945, but they still are not generally provided.

A tendency to include items in state foundation programs that are not universally offered has become evident in recent years. Washington for nearly forty years has followed this practice; it now has the most extensive list of undertakings within its basic program of all the states. Recent legislation in states like California, Florida, New York, and Tennessee follow the same pattern. Among the elements included in one or more of these states are adult education, special classes for the handicapped, vocational classes, summer schools, evening school, junior high schools, parental schools, kindergartens, supervision, health service, special services (such as guidance or remedial instruction), and junior colleges.

FEDERAL SUBVENTIONS

The development of federal direction of educational programs within states through subventions earmarked for specific undertakings

has been summarized in Chapter X. At the present time, the federal government subsidizes public school offerings in agriculture, trade, industry, home economics, distributive occupations, vocational rehabilitation, school lunches, and services for crippled children. Such grants generally are conditioned upon the states matching the funds from state sources or local sources. Under the George-Deen Act states had to provide 50 percent of the federal grants until 1942 and match the amounts in full by 1947.¹⁶ As shown in Chapter X, the grants not only direct the development of educational programs within states, but they often have been subject to administrative control inherent in federal regulations and approval of state plans.

SPECIAL AIDS AND ADAPTABILITY

The degree to which special aids actually result in spread and acceptance of the subsidized undertaking depends upon the method of apportionment, the adequacy of the central support provided, and the type of district structure. The more important consideration, however, is the relative merit of centralized direction over the free operation of local initiative.

METHODS OF APPORTIONMENT

The two methods traditionally used to apportion promotional aids have been matching and flat grants.¹⁷ The present trend is away from matching. Subventions involving matching have five serious drawbacks. First, they create inequalities in the burden of supporting the new undertaking. In low-valuation districts matching or meeting any other percentage of the cost means high tax rates. In high-valuation districts matching involves very little local tax effort. Second, this fact means that only the relatively wealthy districts take advantage of the grants, which defeats the attempt to make the undertaking universal. Third, the fact that there sometimes is no ceiling placed upon the cost may tend to encourage extravagance. Fourth, if central agencies are given the power to approve the local expenditure to be matched,

¹⁶ U. S. Office of Education, *Federal Government Funds for Education* (Leaflet No. 77, 1946).

¹⁷ Swift, *op. cit.*, pp. 195 ff.

central control is substituted for local control. Fifth, the tax rate required for matching often restricts local budgetary freedom and may prevent a school system from financing an undertaking which may be more essential considering local needs for services.

Promotion of state purposes through fixed grants either within or without the foundation program is subject to most of the limitations of the matching unless the amounts guaranteed are sufficient to provide the undertaking. Under present price levels most flat grants for promotional purposes have become inadequate. They generally are far below the amount required to provide the service. Thus, low valuation districts must levy very high taxes to provide the service, or go without it. Only high-valuation districts that can afford to meet the deficit out of local taxes at low rates take advantage of the grants. The only advantage the grants have over matching is that they tend to foster economy and they do not involve state approval of local expenditures.

The inadequacies of present flat-grant promotional aids is illustrated by the following examples (1947-1948): Illinois allowed \$1000 for county supervision; this would pay only a small fraction of the salary of a competent supervisor. Massachusetts allowed up to \$500 for a sight-saving class, a small part of the cost. Missouri allowed \$300 for opportunity rooms. This would pay a teacher's salary for a month or so. New York allowed \$2.50 a period for adult classes. Although this was adequate three years before, it is now too low in 1948-1949.

DISTRICT STRUCTURE

The attempt by states to promote specific projects through subventions is often futile. The existing district structure in many states is inadequate to provide the services economically. In states with the district or town system of school government, the only practical method of providing the basic essential services is to create a large service type of district and apportion state funds to such a district in order to provide the services directly to the smaller districts. At the 1948 session of the Legislature, New York State provided for an intermediate school district. Such districts, serving an area larger than a county, are designed to provide essential services that cannot economically be provided in the smaller districts, such as attendance service, health services, adult

education, guidance, supervision, technical education, transportation, business administration, library service, and junior colleges.¹⁸

LOCAL INITIATIVE

For services that can be provided economically within the present district structure it has not been demonstrated that special aids are superior to an adequate foundation program in achieving adaptations. The fact that many school systems lack essential services generally is an indication of an inadequate level of equalization support. A foundation program based upon reasonable pupil-teacher ratios and sufficiently high monetary allowances to provide staffing with qualified personnel and to meet other essential operating and capital expenditures allows districts to expand their services within the program itself. Furthermore, such a program releases local taxing power to make extensions even where tax limitations are in effect.

Research studies at least have thrown doubt upon the efficacy of matching grants and flat grants that are inadequate to fully meet the costs of the subsidized undertakings. There is no assurance that such findings would apply to adequately supported stimulation attempts. Nevertheless, they do throw doubt upon the value of the attempts at stimulation up to the time the studies were made. Neulen found that other devices such as mandatory legislation and state leadership were equally effective.¹⁹ This finding is reasonable since mandatory legislation, state leadership, matching, and other inadequately state supported special aids can be effective only in districts with tax leeway to do what is expected of them. Wrightstone studied the effects of nullifying special aids under the equalization program in New York State. He found that localities tended to expand services like kindergartens and recreation which had not been subsidized in the past. Many of the previously subsidized activities, such as provision for apparatus, health activities, and vocational preparation, continued to expand. He concluded that the equalization program had been as effective as special aids in stimulating improvement.²⁰

¹⁸ Ch. 778 of the Laws of 1948.

¹⁹ L. N. Neulen, *op. cit.*, p. 78.

²⁰ J. W. Wrightstone, *Stimulation of Educational Undertakings* (1933), ch. VIII.

STIMULATION OF STRUCTURAL REORGANIZATION

Economic and social trends have operated quite independently of state policy to foster extreme decentralization in local school government. In the westward spread of our agricultural economy the tendency has been to create extremely small units to bring a one-teacher school within walking distance of the home. With the growth of urban centers with their concentrations of taxable resources, the tendency has been to create independent school systems able to provide a broader, more diversified educational program. Hence, within most states three divergent movements were underway at the same time: (1) a trend toward extreme decentralization in rural areas, (2) a regrouping of smaller units into larger urban and village school systems offering a twelve-year program of schooling, and (3) a tendency for city and village units to become independent of county or town units where they existed. The more recent movement toward suburban living has created metropolitan regions with a hodgepodge of local school government.

During the first half of the nineteenth century most states allowed social and economic forces to shape the structure of their school systems. In the older states, however, the inadequacies of extreme decentralization were becoming serious by this time and efforts were being made to halt the trend. After 1838 voluntary union school laws began to appear in order to allow small elementary districts to unite for providing secondary schools. After 1854 voluntary consolidation laws began to appear. Although Indiana abolished the district system by statute in 1852 and prohibited local taxes by court decision from 1854 to 1867 on the ground that if such taxes were levied, the schools would not be uniform,²¹ the abolishment of small districts by law did not occur in other states until after 1882.²² Since then most states have tried mandatory legislation, stimulation grants, and penalties to counteract extreme decentralization in structure. About half the states have not been successful in legislating small districts out of existence. Penalties have not accomplished this purpose. Most attempts to stimulate re-

²¹ J. F. Abel, *Consolidation of Schools and Transportation of Pupils* (U. S. Bureau of Education Bulletin 1923, No. 41), pp. 5 ff.

²² See p. 378.

organization through grants-in-aid have been abandoned. Yet there is evidence in the experience of New York and Washington that a properly conceived state-support program can eliminate extreme decentralization in school government.

MANDATORY LEGISLATION

The simplest, most rapid method of reorganizing districts is to mandate the smaller units out of existence. In this way the New England States between 1882 and 1909 were able to reduce the number of units from 13,214 to 1,616.²³ New Jersey in 1895 reduced its number from 1408 to 374 by law.²⁴ Among the other states that had success with this method were Delaware, Indiana, Maryland, and Utah in addition to the county unit state of the south. On the other hand, mandates have failed in many other states because of the resulting inequalities in tax burdens, the long traditions of extreme decentralization, and vested interests.

The only state in recent years to successfully legislate small units out of existence has been West Virginia. The creation of its county unit system was made possible by a breakdown in the local property tax, the imposition of drastic tax limits which made it impossible to support schools in small units, and the adoption of a new state-support program shifting most of the burden to the state. Hence, the reorganization did not create the local tax increases and tax inequalities which have nullified attempts to mandate structural reorganization in other states like New York. The state took advantage of depression conditions to identify the creation of large units with property tax reduction. Although it achieved administrative economy, it restricted the local initiative of the larger units. It moved toward increased centralization, although there are now signs of an awakening of local interest in the counties of West Virginia. Arkansas (1948) and Texas (1949) eliminated a large number of small districts by law.

UNSUCCESSFUL ATTEMPTS TO STIMULATE REORGANIZATION

State efforts to combine school districts began with the union school laws of Massachusetts in 1838 and Connecticut in 1839. The move-

²³ Abel, *op. cit.*, p. 8.

²⁴ *Ibid.*

ment spread gradually to other states: Michigan (1843), Vermont (1844), Ohio (1847), New York (1853), Maine (1854), Wisconsin (1856), New Hampshire (1857), and Delaware (1861). By 1900 over half the states had such laws; and by 1913 all of the states had enacted laws for the consolidation of school units.²⁵

One of the first states to provide a financial incentive for consolidation of districts was New York. Under a law enacted in 1853 the state agreed to pay a union free school district the quotas to which a component district was entitled for a period of five years. Delaware had a similar provision from 1861 until 1915. Washington in 1909 adopted a similar law. After 1910 many states began to offer stimulation aid for reorganization. In 1911 Minnesota, North Dakota, and Oklahoma provided special aid for this purpose. In 1912 South Carolina was added. The next year Iowa, Missouri, and Tennessee made provisions for aiding consolidation. By 1923 half the states had stimulation grants for consolidation. In addition to the ten states listed above, the group included Georgia (1919), Idaho (1921), Louisiana (1914), Maine (1921), Michigan (1917), Nebraska (1915), Nevada (1915), Ohio (1919), Oregon (1919), Pennsylvania (1919), South Dakota (1919), Texas (1921), West Virginia (1921), and Wisconsin (1915).²⁶

Neulen's study showed that such states had no more success in achieving consolidation than the states that had no stimulation grants.²⁷ He did not examine the adequacy of the incentives or the reasons for their failure. Nor was he concerned with the fact that consolidation was proceeding very slowly in both groups of states. All that his study shows is that the devices used up to that time were inadequate. A more thorough study of stimulation grants in New York and Washington shows that state aid will bring about reorganization if it is properly conceived.

Most states that had ineffective aids for consolidation have abandoned them without examining the reasons for their failure. In 1947-1948 only seven states provided stimulation grants for reorganization (Iowa, Maine, Missouri, New York, Rhode Island, Washington, and

²⁵ Abel, *op. cit.*, pp. 21-22.

²⁶ Neulen, *op. cit.*, pp. 46-47.

²⁷ *Ibid.*, p. 49.

Wisconsin). Except in New York and Washington the laws are ineffective. They will not assure consolidation of schools (Maine and Rhode Island) nor the creation of larger districts. They fail to recognize that the key to securing structural reorganization is controlling the tax rate. They failed to provide sufficient aid to transport pupils, rehouse them, and offer a reasonable minimum program with a reasonable local tax rate. Such programs based upon inadequate foundation programs, matching, and failure to properly equalize the burden of transporting and rehousing pupils mean high tax rates for reorganization.

SUCCESSFUL STIMULATION IN NEW YORK

New York State for nearly a hundred years has been faced with a dilemma. If adequate state support is not provided in all school districts, the children are penalized for generations. If adequate support is given either in the form of equalization or general aid, then inadequate school districts are subsidized. Attempts to mandate structural reorganization from 1877 to 1917 failed over and over again. The only successful efforts have been the use of state support to stimulate reorganization in 1853 and 1925. Through these laws, the number of districts has been reduced from over 12,000 to less than 5000 at the present time.

The fundamental weakness of general or equalization aid was recognized in 1853. The State Superintendent of Common Schools pointed out that such aid operates as a penalty on the formation of large schools; indeed, it directly encourages and promotes subdivision.²⁸ In 1853 the state enacted a union school law to overcome this tendency. Districts that united to form union free school districts were given the aid to which component districts were entitled for a period of five years.²⁹ As a result, thousands of small school districts were abolished in practically all of the village centers of population and many of the cities, but small districts in sparsely settled areas continued to multiply, the peak of about 12,000 districts (an increase of about 70 districts a year) in the state coming in 1865.³⁰ Yet if it had not been for the

²⁸ *Annual Report*, 1853.

²⁹ Laws 1853, ch. 433.

³⁰ *Annual Report of State Superintendent*.

union free school law the total number probably would have exceeded 16,000. By 1913 the number had been reduced to 10,500 (an average reduction of about 30 districts a year) through union or annexation.³¹ Attempts to create a township school system by law failed in the Legislature in 1877, 1889, 1891, 1893, and 1894.³²

In order to foster more rapid consolidation of districts in rural areas the Legislature in 1913 enacted a law giving common school districts which consolidated the "former district quotas" (so-called double aid) formerly given union free school districts. Moreover, the five-year limit on such quotas was removed.³³ The additional teacher quotas provided in 1919 increased the value of this incentive. It was increased again in 1923 by allowing consolidated districts a nonresident academic tuition quota for pupils residing within the district.³⁴ In 1924 the mandatory tax was reduced from \$7.00 a thousand to \$5.00, thereby removing one of the obstacles to consolidation.³⁵ Finally in 1925 consolidated districts were given a transportation quota equal to half the cost of approved transportation.³⁶

The state had not yet found the key to voluntary district reorganization in sparsely settled areas. The "double aid device" had worked in densely settled centers, but it did not work in rural areas. Another unsuccessful attempt was made to mandate reorganization in 1917. Then attention again was directed at using finance to stimulate reorganization. By lowering the mandatory tax and providing transportation aid, the state was coming close to finding the solution. Between 1913 and 1925 the number of districts was reduced by 600, or an average of 50 a year.³⁷ The annual rate of decrease had been almost doubled, but it was still too slow. At that rate, it would take nearly two hundred years to eliminate small districts.

The formation of central rural school districts had been authorized in 1914 and they were given the same state aid as union or consoli-

³¹ *Annual Report of Education Department.*

³² C. H. Griffey, *The History of Local School Control in New York State* (1936), p. 66.

³³ Laws of 1913, ch. 129.

³⁴ Laws of 1923, ch. 716.

³⁵ Laws of 1924, ch. 192.

³⁶ Laws of 1925, ch. 674.

³⁷ From *Annual Reports of N.Y.S. Education Department.*

dated districts.³⁸ However, consolidation continued to be the preferred method because there was no particular advantage in centralization. In 1917 central high-school districts superimposed upon common-school districts were permitted, but the overlapping control structure did not prove to be satisfactory; only five were formed.

Legislation passed in 1925 finally opened the way for large-scale reorganization of rural districts. Passage of the Cole-Rice Law with its correction for sparsity of population made the "old-quota" system work in rural areas. For the first time new central districts were guaranteed enough support to operate without excessive local tax rates. Furthermore, nonresident tuition for academic pupils residing within districts that had a high school was provided. The state had agreed to meet one-half the cost of transportation and one-fourth the cost of buildings.³⁹ Passage of the Friedsam Law in 1927 further increased the effectiveness of the old-quota device in rural areas. When the equalization grants were extended to one-teacher districts in 1929, the old-quota system made it advantageous to include large numbers of one-teacher districts in a centralization.⁴⁰ In the case of central districts, old quotas could be the quotas in effect before July 1, 1930 or the equalization quota, whichever was the larger.⁴¹ Between 1925 and 1935 the state created 177 new central districts, abolishing 2036 former districts, or an average of about 200 a year. The rate of elimination of small districts had been stepped up four times.

Up to this time the state had been using trial-and-error devices to stimulate reorganization. The old technique of double aid had been extended until it worked. Recognition had been given to the fact that transportation and rehousing assistance were required. However, these were provided upon the old matching basis used in other stimulation aids. The implications of the devices used were not understood.

The first comprehensive study of the financing of these districts was made by Burke. He clarified the implications of financing reorganization in this way: "State support must enable school districts to reorganize without increasing taxation merely because of reorganization."

³⁸ Laws of 1914, ch. 55.

³⁹ Laws of 1925, ch. 673.

⁴⁰ Laws of 1929, ch. 357.

⁴¹ Laws of 1930, ch. 171.

Since he found valuation relatively low in rural areas, he concluded that high tax rates could not be avoided unless: (1) allowances for calculating equalization support corresponded with the actual expenditure levels required; (2) adequate correction was made for sparsity involving lower pupil-teacher ratios, the maintenance of small outlying schools, or transportation; (3) the state provided the full cost of transportation up to a reasonable ceiling; and (4) sufficient aid was given for capital outlays to permit rehousing with a reasonable local tax effort.⁴²

He found that the devices used up to 1936 were very crude. Old quotas were sufficient in some cases to meet current expenses at the time and part of the cost of transportation and rehousing with a reasonable local tax rate. However, there were extreme inequalities under the old quota system that worked on a chance basis. It would not bring about centralization in all rural areas. Meeting three-fourths of the cost of rehousing placed an unduly heavy tax burden for debt service on low-valuation districts and curtailed the current expense program. The same was true of meeting half the cost of transportation. The \$4.00 minimum tax rate in one-teacher districts and \$5.00 minimum in central districts also acted as a barrier to reorganization.

The placing of building aid on an equalization basis in 1941 was a step in the right direction.⁴³ However, the allowances for calculating aid were too low to assure equalization, and the local contribution was too high to permit centralization at a reasonable tax rate. Moreover, transportation aid was put on the equalization plan in 1942. The formula for calculating aid is too complex and the extra one-mill local contribution placed an extra burden on a reorganized district.⁴⁴ Yet, it was far better than the 50 percent reimbursement basis used before.

In 1947 the Central School Committee on State Aid employed Paul R. Mort to propose a plan of support for central districts. He made the following proposals: (1) equalization support calculated on bases commensurate with present-day costs; (2) adequate correction for sparsity which will enable districts to meet the higher costs of small

⁴² Arvid J. Burke, *Proposed Changes in Financial Support for Rural Schools in N. Y. State* (1936), pp. 225 ff.

⁴³ Laws of 1941, ch. 932.

⁴⁴ Laws of 1942, ch. 916.

pupil-teacher ratios, maintenance of outlying schools, or transportation without unreasonable local taxes; (3) equalization of the burden of existing debt service; (4) applying the sparsity correction to enrollments for calculating building aid and increasing cost allowances for capital outlay support; and (5) enabling centralization to take place under the minimum rate of \$5.00 a thousand.⁴⁵

In spite of restrictive laws between 1936 and 1948 the number of centralizations increased by 168, making the total number 345. The number of districts was reduced by over 3000 or an average of nearly 250 a year. Since 1925 over 5200 districts had been eliminated.

The state in 1948-1949 finally put aid for central school districts upon a more rational basis. Central districts are allowed the full cost of transportation computed under a formula. In addition to the foundation program allowances they are allowed a sparsity correction that is much more equitable than the allowances under the old-quota system. The building aid formula has not been revised, but provision is made for equalizing the debt service of component districts, although the \$3.00 tax rate for this is too high. The law does not yet assure centralization with a reasonable tax rate in all types of districts largely because of the inadequate allowances for capital outlays and debt service, but it will work in many cases.

The importance of sufficient aid to rehouse pupils without increasing local taxes has been demonstrated in New York State. Until 1941 the state paid one-fourth the cost of rehousing. The tax burden required to finance the other three-fourths discouraged centralization in low-valuation rural areas until 1933. After that date federal aid for buildings became available. During the period of federal school-building aid, centralization took place at a rapid rate. Districts had to meet only a fourth of the costs by local taxation. This enabled reorganization to take place at reasonable tax rates in many instances.

THE EXPERIENCE OF WASHINGTON

Washington has an outstanding record in the elimination of school districts through voluntary local action. The peak number of districts was reached in 1910 when there were 2710 in all. As a result of the

⁴⁵ P. R. Mort, *The Crisis in Central School Finance* (Report of the Committee, 1947), pp. 1 ff.

aid provided for consolidation in 1909, the number was reduced to 1323 by 1941. A new reorganization law enacted at that time brought the number down to 672 by 1946. Since the state has set 280 districts as its goal there remain fewer than 400 districts to be reorganized.⁴⁶

The aid for consolidated districts adopted in 1909 was very similar to the New York law. A consolidated unit for purposes of apportionment was given credit for 2000 days of attendance for each district included in a consolidation less one. This law like the New York law became increasingly effective after state aid was increased to \$20 a pupil after 1920. This made the allowance about \$600 for each district taken in and it was used largely to meet the cost of transportation until 1933. When in 1933 the grant for a day of weighted attendance was fixed at 25 cents and transportation aid up to 50 percent of the cost was included, the state was progressing toward a solution to the problem. The cost of rehousing pupils was not yet provided for, but the combination of district quotas and transportation aid was providing better equalization of the burden of transporting and rehousing pupils. With the passage of its new equalization law (1937) and its new reorganization and building aid laws in 1941 Washington like New York had reached a point where district reorganization could be achieved at a rapid rate through voluntary local action. Building aid allocated at the discretion of the state superintendent was an integral part of the reorganization act. Districts were assured enough funds to meet current expenses without inequality in the local tax burden. Transportation was still on a 50 percent basis, but a special appropriation was made in 1941 to assist districts with a heavy local tax burden for transportation. Hence, it was possible at least to obtain reorganization with considerable control over the local tax rate. Although the reorganization act expired in 1945, the state has assumed a much larger portion of the transportation cost (80 to 90 percent) and building aid was revived in 1947.

REORGANIZATION AID

The first requisite for stimulating structural reorganization is an adequate level of equalization support with full correction for sparsity of

⁴⁶ *Thirty-eighth Biennial Report of the Superintendent of Public Instruction* (1946), Washington, pp. 65-66.

population. The equalization program should contain adequate allowances for transportation and capital outlays so that pupils can be transported and rehoused without an unreasonable tax burden for these. Because territory most in need of reorganization tends to have less taxpaying ability than urban centers, attaining a reasonable local tax rate is impossible unless this prerequisite is met. The experience of New York and Washington demonstrates this. When the foundation program becomes inadequate due to a higher price level, reorganization slumps.

PENALTIES

Most states attempt to promote district reorganization by negative devices, reduced state aid for unsatisfactory districts, a low-level equalization program, a denial of sparsity correction, a higher local rate of contribution for equalization purposes, budgetary review, and other penalties. Such a negative approach assumes that failure to reorganize is a matter of local perversity and that denial of educational opportunities to children will force the parents and taxpayers to do something about district reorganization. There is no evidence that all of the penalties used in the past one hundred years have accomplished this purpose. Indeed, by neglecting the education of successive generations, states have made it increasingly hard to bring about change. Structural reorganization is not brought about by perpetuating ignorance and low consumer standards in education. On the other hand, it is true that granting adequate state aid to unsatisfactory units also retards the formation of satisfactory units of administration.

Three principles emerge from past experience with penalties. First, the penalty should be placed upon the local tax rate. This puts the pressure on the parents and the taxpayers and not on the children. Second, the full state foundation program should be made available to all children. Very frequently the local unit is not capable of providing this, but every local unit should be given the maximum support it is capable of handling. Where this involves a certain degree of uneconomical expenditure because of the inefficient size of the operating unit, the local rate of taxation for support of the program should be increased. The state is obligated to provide for sparsity, but not for

higher costs that are avoidable. Local taxpayers should be required to pay for the privilege of maintaining a small operating unit.⁴⁷ Third, every state should create a commission to make a master plan of school district organization. Each of these districts should be created at once to provide that part of the foundation program which cannot be provided economically by the existing small units within its boundaries. The state funds denied the smaller units should be allocated at once to the new unit for administration. Reorganization aid of the kind described above should be provided to facilitate the absorption of the smaller units into the larger. Gradually additional functions should be transferred to the larger unit and eventually all state funds should be apportioned to the larger unit. Only in this way can penalties be administered so as not to penalize the children. There will remain a group of wealthy unsatisfactory districts which cannot be reached either by penalties or positive stimulation. When most of a state is reorganized the remainder must be redistricted by state law.

REDISTRICTING COMMISSIONS

Even in states with inadequate financial provisions for equalizing local tax rates for support of a reasonable foundation program, many districts can be eliminated through state and local redistricting commissions and voluntary local action. Where a desire for a better program can be created and the tax burden for the program is not prohibitive under reorganization, or where extremely high local rates already exist which might be reduced through reorganization, many reorganizations can be brought about. Recent experiences in Illinois and Kansas have demonstrated this to be true.

SUMMARY

The policy of stimulating educational development within states or school districts has serious drawbacks. It substitutes central direction for local initiative and public acceptance of the new undertaking. It causes unbalance in local programs by giving priority to the specially aided program elements. Where they are insufficient to meet the cost

⁴⁷ P. R. Mort and A. W. Schmidt, *Technical Aspects of State Aid* (1947), pp. 24 ff.

of an undertaking, the grants tend to go to the wealthiest units. They can take advantage of them without an unduly high local tax burden.

The trend is away from special aids and they have become relatively insignificant in total state support for schools. However, the policy still prevails (1949) on the federal level, a factor which tends to keep the policy alive on the state level. States which have abandoned most of their older special quotas sometimes revert to the policy for new undertakings. Indeed, the policy has been present in many of the foundation programs for purposes of equalization. Special aids within a foundation program are subject to the same limitations as other special aids unless the allowances are adequate.

The use of state support to stimulate district reorganization is not subject to the usual limitations of special aids. It strengthens local initiative. On the other hand, the allowances must be adequate to make possible the rehousing of pupils, the transportation of pupils, and the adjustment to sparsity with a reasonable local tax rate.

READINGS

Bittermann (5), chs. VII, VIII, and XVII; Educational Policies Commission (50); Mort (111), chs. VII-X; Mort and Schmidt (119); National Advisory Committee (122), Part I, ch. III; Neulen (136); Swift (171), ch. X; Wrightstone (185).

CHAPTER XV

Central Support and Operational Responsibility

The federal and state governments both finance centrally operated educational institutions. On the federal level, there are schools for military preparation, the District of Columbia school system, Howard University, Columbia Institution for the Deaf, National Training School for Boys, the Indian schools, the school systems on reservations and other special areas such as the Canal Zone and Oak Ridge, and schools for public-service preparation conducted by various departments and agencies of the federal government. On the state level, there are state universities, colleges, professional or technical schools, normal schools, junior colleges, libraries, experiment stations, agriculture and vocational schools, schools in unorganized territory, correctional schools and schools in penal institutions, schools for veterans, Indian schools, maritime schools, schools for the handicapped (e.g., the deaf, the blind, cerebral palsy cases, speech defectives, and spastics), schools for mental defectives, schools for orphans, extension services, and provisions for public-service education. States also have assumed responsibility for certain expenditures involved in local operations, such as teacher retirement; and they have provided certain services for local school systems.

The fiscal importance of central operations in education is not revealed by existing statistics. Operational responsibility is divided among a great many agencies, educational and noneducational. It is not always possible to segregate the financing of these operations from other operational outlays. Sometimes the money for central operations

is deducted from central assistance for local government and is charged to local grants-in-aid or shared taxes. Appropriation bills sometimes include revenues from federal sources, endowments, fees, dedicated taxes and funds, and auxiliary enterprises, and sometimes all or some of these sources are excluded. Some appropriations include capital outlays and others have separate capital outlays appropriation measures. Sometimes outlays for debt service and retirement are included in separate appropriations. State accounting systems do not always reveal what is spent for central purposes as distinguished from service to localities.

A detailed analysis is available of state appropriations for education in California for the fiscal year 1947-1948. The total of \$267,288,526 is the largest in the nation. Grants-in-aid for local school operations total \$204,434,814, made up of the following aids: child-care centers, vocational rehabilitation, handicapped pupils, kindergartens, elementary schools, high schools, junior colleges, vocational education, and school buildings. Of the total appropriation, 76 percent is used to support local operations and 24 percent for state operations. Total appropriations for state operations in education amount to \$62,853,712, which include the following: (1) University of California, \$17,288,467; (2) state colleges, \$5,540,425; (3) special schools, \$1,916,615; (4) purchase of textbooks, \$2,200,510; (5) postwar employment reserve \$15,424,000; (6) assistance to veterans, \$2,681,200; (7) teacher retirement contributions, \$9,606,843; (8) capital outlays for higher education, \$3,667,547; (9) research, \$2,100,000; and (10) miscellaneous, including state education department operations, \$2,428,165.¹

A similar analysis of appropriations in other states for the fiscal year ending in 1948 shows that well over \$700 million is involved in the financing of central operations in education. The state appropriations for state institutions of higher education amounted to about \$400 million, but these do not always include all sources of revenue; so more than \$500 million must be allowed. The next largest item is for state-operated educational institutions below the college level, with an annual expenditure of at least \$100 million. The third largest item is

¹ California, Senate Investigating Committee on Education, *Second Report* (1948), pp. 17-19.

state financing of employer contributions for the retirement or pension allowances of employees of local school systems, amounting to over \$75 million a year. Federally operated educational institutions require at least \$75 million a year; and state services for local school systems probably cost at least \$25 million annually.

The policy of central finance accompanied by central control and operation has paralleled the policy of central finance with varying degrees of local control and operational responsibility. With new undertakings such as junior colleges, some states are following both policies at the same time. States with a strong tradition of localism may provide textbooks, thereby controlling local educational development; and at the same time they may be using central finance to assist localities in the operation of enterprises which could be transferred to the state without any serious loss of local control. State fiscal policy in most states needs to be harmonized.

CENTRALLY FINANCED AND OPERATED EDUCATIONAL INSTITUTIONS

HIGHER EDUCATION

State institutions of higher education account for most central support for centrally operated educational institutions. The policy of central control and operation of colleges and universities is one of the oldest adopted by the various states. The University of Georgia, chartered in 1785, opened in 1801. The University of North Carolina, founded in 1789, opened six years later. Others among the oldest state institutions are these: Ohio University (1802–1804); University of South Carolina (1801–1805); University of Maryland (1807–1812); University of Virginia (1818–1819); and the University of Tennessee (1794–1820). The University of Indiana, founded in 1820, did not open until later. The University of Vermont, a quasi-public institution, had its beginnings in 1791, but it did not become a state institution until later and the University of Michigan received its impetus from a university created in 1817, but did not become a state institution until later.²

² A. B. Moehlman, *School Administration* (1940), p. 768.

Regular state support for both buildings and current expenses in state institutions of higher education was stimulated by the Morrill Act of 1862. In many instances general support came years after the founding of the institution. The University of North Carolina was opened in 1795 and became a state institution in 1821, but it did not receive regular state support until 1881. Ohio University opened in 1808, but state support did not come until 1881. The University of Vermont as a state institution dates from 1838, but it did not receive regular state support until 1886. The University of Alabama was founded between 1820 and 1831; state support came in 1860. The University of Indiana also had its beginnings in 1820, but the state did not begin to support it regularly until 1867. The University of Michigan was incorporated into the state school system in 1837; it did not get regular state support until 1871. The University of Missouri was founded in 1839, but regular state support did not come until 1875. The University of Wisconsin as a state university dates from 1848; but regular state support goes back only to 1876. The first appropriation for the University of Minnesota, founded in 1851, was not made until 1867 and the regular state support did not start until 1888.³

State-supported and operated universities or colleges are found in all states. Forty-six states now have state universities, Connecticut, Massachusetts, New Jersey, and New York (1948) having been added in recent years. Pennsylvania and Rhode Island do not have a state university, but they do have a state college. Indiana and Ohio have more than one state university. Thirty-seven states maintain one or more state colleges or professional schools exclusive of teachers' colleges and normal schools. The states with the largest number are California, Georgia, Louisiana, New York, North Carolina, Oklahoma, and Texas. Forty states operate colleges or schools for teachers.⁴

In recent years, especially since the end of the war, there has been a tremendous expansion of state institutions for higher education. At least nineteen states have state-supported and operated junior colleges

³ F. W. Blackmar, *The History of Federal and State Aid to Higher Education* (U. S. Bureau of Education Circular of Information No. 1, 1890) and C. H. Thurber, *The Fiscal Support of State Universities and State Colleges* (U. S. Office of Education Bulletin, 1924, No. 28).

⁴ U. S. Office of Education, *Higher Education* (Educational Directory, Part III, 1947-1948).

or institutions of a similar character—Arizona, Arkansas, California, Colorado, Georgia, Idaho, Louisiana, Maryland, Massachusetts, Montana, New Mexico, New York, North Dakota, Oklahoma, Tennessee, Texas, Utah, Washington, and West Virginia. Sometimes these are branches of the state university or the state colleges as in Arizona, California, Georgia, Louisiana, Massachusetts, Pennsylvania, Tennessee, Texas, Utah, and West Virginia. Some states (e.g., California, Connecticut, Illinois, Massachusetts, Minnesota, New Jersey, and North Carolina) have opened branches or centers of the state university or state colleges in various parts of the state.⁵

The state institutions of higher education, like the local school systems, are coming to rely heavily upon appropriations for financial support. However, all of them derive revenues from other sources. Federal grants, contracts with federal agencies, and tuition under the Serviceman's Readjustment Act are very important sources of support at the present time. Some of these institutions continue to derive support from dedicated property taxes or other earmarked funds or sources. Student fees and charges for auxiliary undertakings (dining halls, dormitories, athletics, and other services) on the average provide about 15 percent of operating revenues.⁶

With the expansion of state activities in higher education and the increase in financial outlays, state-operated institutions have become subject to increased budgetary and fiscal control. Most states have imposed budgetary requirements, prescribed accounting systems, and controls over the acquisition and disposition of property.⁷ The trend is toward increased executive control.⁸

Most states have far to go in coordinating their systems of higher education. However, the trend is toward substituting a single board of control for the separate boards, and most states have taken steps to consolidate control.⁹ In at least four states, Florida, Idaho, Montana,

⁵ *Ibid.*

⁶ U. S. Office of Education, *Statistics of Higher Education, 1943-1944* and President's Commission on Higher Education, *Financing Higher Education* (Report of the Commission, Vol. V, 1947).

⁷ A. Brody, *The American State and Higher Education* (1935).

⁸ J. H. McNeeley, *Authority of State Executive Agencies over Higher Education*

(U. S. Office of Education Bulletin, 1939, No. 3).

⁹ J. F. Kelly and J. H. McNeeley, *The State and Higher Education* (1937).

and New York, the state board of education exercises some control over the entire system of public education. The only states with a single university embracing all state colleges and professional schools are Nevada and Wyoming. Arizona, Connecticut, Maine, Minnesota, Nebraska, New Hampshire, Vermont, and Wisconsin have a single university including all except the teachers' colleges. South Dakota (1896), Iowa (1909), and Kansas (1913) provided for unified state control of state institutions of higher education. Oregon (1929), Georgia (1931), and Mississippi (1932) took a similar step. North Dakota and Oklahoma also have moved toward unified control. Louisiana, North Carolina, Tennessee, and West Virginia have extended consolidation of control.¹⁰

OTHER SCHOOLS

All states maintain state schools below the college level. (1) Most states have special schools for the handicapped, particularly for the blind and the deaf. Some states also have schools for spastics, epileptics, persons with speech defects, cerebral palsy cases, and mental cases. Although the schools for the blind and the deaf generally are administered by the state education department; the others usually are under the control of other departments. (2) Practically all states have schools for correctional purposes. Many of these are becoming vocational or trade schools. Alabama, for example, changed its Negro reform school to an industrial school last year. These schools generally are administered by penal or welfare authorities. In some states like California, Illinois, and New York, penal education is very advanced. California has a camp program. Illinois has a broad program of vocational and general education in its penal institutions. New York has schools in most of its penal institutions and its most modern prison has a very elaborate educational program. (3) Other types of schools are not found in many states, but one or more states have maritime academies, noncorrectional agricultural and vocational schools, schools for orphans, schools in unorganized territories, textile schools, Indian schools, special schools for Negroes, schools for vet-

¹⁰ Moehlman, *op. cit.*, p. 775.

erans, and facilities for public-service education. Such state-operated schools are financed almost entirely by appropriations.

Certain states have established state regional schools which relieve the local school systems of certain expensive operations. New York State beginning in 1906 opened a number of regional, state-operated and financed agricultural schools which have now become regional technical institutes. Main (1909) assumed the control, operation and support of public schools in unorganized territory. Connecticut (1915) substituted centrally operated and financed trade schools for state-aided-locally-operated schools. These are now state-operated regional vocational schools. Massachusetts also has state-operated vocational schools. Alabama has maintained a state trade school and in 1947 authorized the opening of state-operated and financed regional vocational schools. South Carolina has area trade schools. Utah (1947) made the Central Utah Vocational School a state institution. Such schools are controlled and operated by the state boards of education and the education departments.

An analysis of 1947-1948 appropriations for state-operated schools below the college level shows that New York ranks first, followed in order by Michigan, Connecticut, Massachusetts, Pennsylvania, California, and Illinois, each with over \$5 million appropriated. The states spending between \$1 million and \$5 million are New Jersey, Minnesota, Indiana, Washington, Missouri, Louisiana, Texas, North Carolina, Kansas, Alabama, Iowa, Oregon, Maryland, Florida, Maine, and Rhode Island. The states with the smallest amounts involved include Delaware, Nevada, New Hampshire, South Dakota, and Wyoming, but these are relatively small or sparsely settled states.

STATE ASSUMPTION OF LOCAL OPERATIONS

All states provide for the local operation of public school systems with varying degrees of state oversight and control. Yet there is a discernible tendency in some states to assume complete state responsibility for certain operations. Because state-assumed operations are sometimes financed by deductions from grants-in-aid or shared taxes or sometimes included in the budget for the state educational au-

thority, they often are not revealed by existing statistical data. Probably North Carolina has gone farthest in this direction, but examples of the same policy can be found in other states. The operations most frequently assumed by states are textbook selection and purchasing, supervision, and technical services.

EXAMPLES OF CENTRALIZATION

The outstanding illustration of centralization is North Carolina. Delaware has gone far in this direction; its state education department provides the central-office administrative, supervisory, and technical services for the state unit schools. Pennsylvania, New York, California, Louisiana, Massachusetts, Michigan, Florida, Alabama, Wisconsin, Mississippi, and Connecticut show strong centralizing tendencies. However, what is happening in these states, particularly North Carolina, Alabama, and New York, illustrates tendencies that can be found in most states.

In North Carolina the state selects and purchases textbooks and supplemental reading materials for distribution or rental, instructional supplies, fuel and janitorial supplies, and transportation equipment and supplies; administers the transportation system; acts as a central treasury for local expenditures made out of state funds; and provides state insurance for school buildings. The state makes available to schools comprehensive supervisory services, preaudits local expenditures out of state funds, postaudits all local expenditures, accounts for expenditures out of federal and state funds, prepares the budget for local expenditures from state and federal funds, approves budgets for local expenditures from local funds, prepares curriculum materials and visual aids, and supervises plant operation and provides a variety of field or supervisory services for local school systems.¹¹

Alabama has attempted to secure many of the advantages of centralization without going quite so far toward central control as North Carolina. Like North Carolina, it selects and distributes state-purchased textbooks. Like North Carolina, it exercises considerable control over curriculum making through a course of study committee. It has a

¹¹ North Carolina, State Department of Public Instruction, *State School Facts*, Oct., 1947.

State Building Commission to determine the critical building needs and to establish minimum standards for buildings. At the 1945 session it adopted a state sick-leave law for teachers financed by central funds and regulated by the state. The state has a public schools corporation to make short-term loans to school systems at a low rate of interest. School buildings can be insured in the state insurance fund. It provides for state purchases of busses by local requisition and exercises close supervision of the transportation system. It provides a variety of specialized services including architectural, operation and maintenance of buildings, school securities, budgeting, business management, teacher placement, instruction, special services, and surveys.¹²

New York State illustrates another type of central assumption of operational responsibilities. Through its legal requirements, regulations, curriculum bureaus, supervisors, and Regents examination system the state exercises considerable operational control over the content of the curriculum and the type of teaching in the public schools. Through district superintendents, state agents of local jurisdiction, it exercises considerable administrative control over such matters as transportation and business management as well as having close supervision of instruction and other operations. Central agents have final authority in school plant planning and many aspects of transportation. Through a large staff of auditors in the State Comptroller's office the state exercises considerable control over the budgetary process. The state provides a variety of technical services for school systems (radio and visual instruction, traveling libraries, transportation, school plant planning, research, in-service education of teachers, finance and business management, rural administrative services, health and physical education, vocational education, law, adult education, child-development and parent education, guidance, testing, library service, procurement of surplus property, school lunches, rehabilitation, and veterans' education).

OPERATIONS FREQUENTLY ASSUMED

One of the operations most frequently assumed by states is the selections and purchase of textbooks. About a third of the states have the

¹² Alabama, Department of Education, *Narrative Report for 1947*, pp. 88-89.

policy, which is rather general in the southern states. Besides Alabama and North Carolina, Arizona, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Mississippi, New Mexico, Oklahoma, South Carolina, Tennessee, Texas, and West Virginia purchase books and distribute them to school systems. Florida purchases the books upon local requisitions. Georgia allows selection from a multiple list. Most states make the selection on the state level. Delaware, Louisiana, and Virginia provide library books, and other instructional materials. South Carolina rents state textbooks. California prints its own textbooks.

Another common operation assumed by states is that of rural supervision. Here geographic location is not important. States in all sections of the country have moved in this direction. Connecticut (1907) assumed full responsibility for rural school supervision. New York State (1914) took a similar step. Over a third of the states have provided state rural supervisory services: Connecticut, Delaware, Georgia, Illinois, Iowa, Kansas, Maine, Minnesota, Missouri, Nevada, New Hampshire, New Jersey, New York, Oklahoma, Pennsylvania, South Carolina, Texas, Vermont, Wisconsin and Wyoming.¹³ Nevada, New Hampshire, New York, and Wyoming pay the salaries of district superintendents. Pennsylvania provides county and deputy county superintendents. New Jersey employs county superintendents and helping teachers. Connecticut, Georgia, Illinois, Iowa, Kansas, Minnesota, Missouri, Nevada, Oklahoma, South Carolina, Texas, and Wisconsin employ regional supervisors or superintendents. Delaware, Maine, and Vermont provide supervision from the state education department.

All of the states provide some supervisory services or other services for local school systems, but accounting does not reveal the proportion of services provided for localities as distinguished from state oversight. It is very probable that the various supervisors, curriculum bureaus, and other service agencies provide considerable service to localities. A detailed analysis of the budgets and activities of state education departments probably would show more states actually provide local supervision than are listed above. Among the other serv-

¹³ U. S. Office of Education, *Supervision of Elementary Education As a Function of State Departments of Education* (Bulletin 1940, No. 6, Mono. 8), pp. 12 ff.

ices provided by states for local school systems in one or more states should be mentioned specialized field services in administration and business management, traveling libraries, visual aids, health services, correspondence schools, surveys, testing services, workshops for teachers, and state purchasing on request. Many states recently appropriated funds for administering the federal school-lunch and surplus-property programs. This is only a partial list. A thorough study needs to be made of the services provided by states for localities.

The policy of providing services for school systems is most important fiscally in the following states, judged by 1947-1948 appropriations for state education departments and specified services: North Carolina, Pennsylvania, New York, California, Louisiana, Massachusetts, Michigan, Florida, Alabama, Wisconsin, Mississippi and Connecticut. The policy involves relatively small outlays in Colorado, Idaho, Iowa, Montana, Nebraska, Nevada, New Hampshire, North Dakota, Oregon, South Dakota, Vermont, and Wyoming. However, these are the smallest, least populated states. Proportionately, they may have as much centralization as other states.

STATE ASSUMPTION OF SPECIFIC LOCAL OPERATING COSTS

Most states have relieved localities of a large operating cost by paying all or part of the employer's contribution for the pensions or retirement allowances of their employees.¹⁴ All states except Colorado, Iowa, Missouri, Montana, New York, North Dakota, Ohio, and Oregon made appropriations or shared taxes for this purpose in 1947-1948. Montana had a state appropriation until 1947. The total amount in the forty states exceeds \$75 million a year. State appropriations for teacher retirement are relatively large in New Jersey, Pennsylvania, California, Michigan, and Washington (over \$5 million a year). From \$1 million to \$5 million a year is contributed by the state in Alabama, Connecticut, Georgia, Illinois, Indiana, Louisiana, Maryland, Massachusetts, North Carolina, South Carolina, Tennessee, Texas, Virginia, and Wisconsin. The appropriations are relatively small in Delaware,

¹⁴ National Education Association, Research Division, *Statutory Provisions for State-wide Retirement Systems* (1946), p. 10.

Idaho, Kansas, Minnesota, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, South Dakota, and Wyoming.

Although payment of employer's contributions for teachers' retirement is the outstanding example of direct state assumption of part of local operating expenditures, other illustrations can be found in individual states, such as appropriations for sick leave in Alabama, South Carolina, and Tennessee and the county educational services provided in California. Under the California program the state pays for certain services provided by counties on the basis of budgets submitted. These include supervisory, attendance, curriculum, school health, research, and guidance services and professional libraries plus certain expenses for tuition, transportation, textbooks, meetings, insurance, and printing.¹⁵ New York State (1948) adopted a similar plan for coöperative or intermediate school districts which generally are larger than a county.

CRITERIA FOR ALLOCATING OPERATIONAL RESPONSIBILITY

The analysis of centrally financed and operated educational undertakings reveals certain guiding principles. (1) Central governments generally have assumed complete responsibility for educational undertakings of a highly specialized or advanced nature, e.g., universities, schools for the handicapped, correctional schools, and teacher-education institutions. These have been particularly suited to central operation since the institutions must serve a large area and since the recruitment of highly specialized personnel requires the resources of a large unit of government. (2) Some central governments have assumed responsibility for regional schools not requiring as high a degree of specialization, e.g., junior colleges and vocational or technical schools; other states have attempted to stimulate localities to operate such institutions. Here the choice seems to depend upon tax resources and governmental simplicity. State operation eliminates another overlapping unit of government and overlapping local taxation. Many regions do not have the tax resources to support the enterprise; so state support must be provided anyhow. (3) Central governments have as-

¹⁵ California State Department of Education, *Financing Public Education in California* (1941) and California Teachers Association, *The Apportionment of State School Funds* (1947).

sumed specific operations and operating expenses of locally operated school systems. Here no particular principle seems to apply. Regional practices, expediency, and the meeting of specific urgent problems seem to have been the governing considerations. Several students of administration have attempted to find a rational approach to the allocation of such responsibilities between central and local units.

EXTERNA VERSUS INTERNA

Strayer maintained that centralization should be limited to operations which can be classified as "externa," leaving the "interna" to local operation. He follows the European tradition of classifying as "externa" such things as compulsory attendance, buildings, health services, teachers' salaries, supplies, transportations, insurance, pensions, debt service, and treasury operations. He classifies as "interna" matters which affect what is taught, how it is taught, and the outcomes of education.¹⁶

The distinction between externa and interna is not quite so clear as the terms imply. Local initiative and control of the educational process requires certain local controls upon externa. (1) The most obvious illustration is that of books and supplies. Local operators must be free to choose the books and supplies which they consider necessary to carry out their objectives. State adoption of books is a serious encroachment upon local control. State purchase and distribution of books and supplies can be a serious restraint. Unless the state makes the purchase through local requisition, a state cannot have the advantages of centralized purchasing of this type without getting into the interna. (2) School building control is another example. The state must guard the health and safety of children and it probably should enforce minimum educational standards in school building construction. Yet in some states, e.g., New York, many items of construction have been standardized, such as the dimensions of school rooms. Such standards restrict local operational efficiency. If the local educational program calls for standards which exceed the state requirements, as in the case of the dimensions of classrooms, the locality must

¹⁶ G. D. Strayer, Jr., *Centralizing Tendencies in the Administration of Public Education* (1934), pp. 11-15.

have the freedom to design a building suited to its operational purposes, program, and methods. A central government can assume responsibility for external only to the extent that it does not interfere with local operational freedom to exceed minimum standards in purposing, programming, and methods of obtaining results.

Certain operations and expenditures can be assumed by a state with a minimum danger of encroaching upon the operational efficiency of local school systems. (1) The payment of employer contributions for retirement of school employees can be centralized. It simplifies financing, frees local funds for local initiative, and represents an expenditure for social welfare and only indirectly for education. (2) Central government can assume responsibility for expenditure like insurance and debt service, incurred to meet state minimum standards. This is a potential economy and it frees local resources for fulfilling the main purposes of schools. (3) The state can centralize health and welfare services, other than instructional, provided in schools. These services are not educational and they require school funds for services which should be charged to other functions of government. (4) The state can centralize the purchase of books, equipment, and supplies, providing a local school system can obtain on requisition the material it needs for its purposes and providing localities are free to buy elsewhere with their local revenues. (5) The state can centralize treasury operations involving state funds. This eliminates many local expenditures for bonding, clerical work, and other treasury operations. (6) The state can operate the transportation system providing local administration can supervise the behavior of pupils being transported and providing localities can use the transportation facilities for local educational purposes, paying the cost of these operations from local funds. Transportation expense makes hardly any direct contribution to education and it is expensive, particularly under local operation. State assumption of this cost strengthens local school government by releasing funds for educational operations. (7) Technical or central-office staff services can be provided from the education department in small states and preferably on a regional basis in larger states. The safeguards required are that the services be advisory only, that the staff be identified as closely as possible with the region served, and that

the final decision be left to the local unit. Among the staff services that cannot be provided economically by most local operating units are personnel technicians, finance and business management specialists, architectural and school building planning experts, psychological services, specialists in curriculum construction, instructional methodology and testing specialists, research workers, and specialists in the various services such as guidance.

OPERATIONAL RESULTS

The ultimate test of the proper allocation of operational responsibility in education is effectiveness or results. Results must be measured not only in terms of planned outcomes, but also in terms of concomitant outcomes. It is generally believed that one of the chief values of local operations is the effect of close participation in government upon the citizens. It is also assumed that local operation implies a greater sense of citizen responsibility for results, efficiency, and economy. Yet close observation of both central and local operation of schools may show that the achievement of results does not depend merely upon the allocation of responsibility. The full potentialities of centralization have not been achieved in a state like Delaware. The hopes of decentralization have been far from realized in the New England states and New York. It is hard to find an ideal case of centralization to compare with an ideal case of decentralization to determine the results.

Cillié attempted to compare the results of a highly centralized school system (New York City) with the decentralized school systems in the New York City metropolitan area.¹⁷ It is very likely that the decentralized school systems are among the best-operated local units in the county; so the comparison may involve factors other than the degree of centralization. Furthermore, the study is subject to the limitations of the criteria used; so the study does not attempt to make any generalizations. It merely suggests that many aspects of business management tend to be better in a centralized system since the unit costs of providing them are relatively low. Other services such as care of the handicapped and research where the unit costs are relatively low in

¹⁷ F. S. Cillié, *Centralization or Decentralization* (1940).

a large school system seem to be more general in the centralized school system. In instruction and other services requiring flexibility, adaptability, and attention to individual differences among children the advantage appears to be in favor of the decentralized school systems. However, in most provisions for individual differences, teacher improvement in service, personnel administration, enrichment of the curriculum, plant and equipment, and general administration, the factor of centralization or decentralization may not be too important. These characteristics seem to operate independently of the control structure.

There is need for further studies of the type made by Cillié. In all probability such studies would show that centralization has potential advantages in certain operations; that the crucial educational process potentially will foster best under decentralization; that in many services it will make no difference as far as results are concerned whether the operations are performed locally or centrally. Yet caution must be exercised in this approach. Certain educational processes are closely interrelated and in management must be considered as a whole. Even where a certain function might appear to be suitable for transfer to central operation, it may be possible that it should be left to the locality because of its inseparability from other functions.

OTHER CRITERIA

Cyr, using the criteria of efficiency and economy in operation, democratic control, specialization of functions and definiteness and clarity in allocation of responsibility, would assign almost all operational responsibility to community and county units of government.¹⁸ He would assign to the state only the determination of minimum standards for teachers, the establishing of minimum salaries to enforce the minimum standards, the equalization of financial support, the enforcement of certain financial safeguards, recommendations relating to instructional materials and buildings, and the regulation of attendance.

Cyr allocated almost all operational responsibilities to the local operating unit, even purchasing, treasury operations, and transportation. It would be possible to allocate these to the county or the state without violating his criteria providing certain safeguards as to local

¹⁸ F. W. Cyr, *Responsibility for Rural-School Administration* (1933).

control were preserved. There is no particular reason why health services or supervision provided by a county unit would be superior to the same services provided directly by the state.

FUTURE DEVELOPMENTS

It will become clear as time goes on that present methods of attaining an optimum or minimum degree of education through varying amounts of central finance combined with local operation will not attain maximum returns for money spent. States will desire to capitalize upon the advantages of central units in such matters as purchasing, business management, and personnel management. Why should a state allow funds for materials or equipment purchased at retail prices when the state unit can obtain them at factory prices? Why should a state apportion funds sufficient to employ competent professional service when local personnel policies and practices sometimes preclude the employment of the competent? Why should the state extend support for debt service created locally when the state can obtain credit at lower rates? It will become clear that more educational service can be provided with the same money by taking advantage of central operation. The tendency toward complete centralization while retaining the paraphernalia of local government will continue.

States, rather than moving toward complete centralization or indiscriminate centralization of particular functions as is now taking place, should attempt to secure a rational segregation of operational functions. Thereby, they can attain both the advantages of centralization instead of the disadvantages of both. Some institutions and operations should be controlled, operated, and financed by the state. Others should be controlled, operated, and financed locally with the minimum central financial support necessary to correct for lack of taxpaying ability in certain local jurisdictions. Localities will continue to be primarily responsible for elementary and secondary schools, but they will be relieved of many of the ancillary costs which have no direct bearing upon educational results. Their resources will be freed to finance the purposing, programming, and methods of attaining their purposes. States should relax many of their requirements affecting the

curriculum, the program, and the materials used. They should abandon central financial controls such as budgetary review, preaudits, and tax limits which restrict local operational freedom.¹⁹

HARMONIZING CENTRAL POLICY—A SUMMARY

Both the federal and state governments operate schools and carry on educational activities financed like other governmental functions. Some operations and operating expenditures of local school systems are financed directly by states. Oftentimes centrally financed operations are carried on by a number of agencies and there is no rational policy. Some states have assumed direct responsibility for operations which should be left to the local operating unit. Some have failed to assume direct responsibility for operations or operating expenditures which would free local resources for initiative in education.

The division of operational responsibility between central and local governments must be placed upon a rational basis. Present policies seem to be based upon piecemeal solutions to particular difficulties without considering principles.

This survey of state policy has shown that most states are pursuing conflicting policies. Even the literature of school finance reveals conflicts in outlook. Those who have stressed equalization have tended toward centralization. Those who have stressed the virtues of local initiative often ignore the glaring shortcomings of education in certain poor states and within extremely decentralized state school systems. They tend to sacrifice the attainment of a reasonable foundation program of education through federal and state equalization support combined with local support, for tax sharing, per-capita grants-in-aid, low-level state-supported equalization programs, and stimulation grants which perpetuate the extreme disparities in educational offerings which occur under decentralization. Others unconsciously combine elements which tend toward centralization and others which favor decentralization. The fundamental issue for a state to decide is whether or not it shall attempt to achieve a centralized or a decentralized school system. If it decides to retain decentralization, it must reexamine its policies to determine those which are out of harmony with this objec-

¹⁹ Mort and Reusser, *op. cit.*, pp. 399-401.

tive. If it is going to combine centralization and decentralization, it must find a rational basis for allocating operational responsibility which will attain the maximum good from both policies.

DECENTRALIZATION GOALS

The National Education Association recently released a publication on school finance goals which presumes that all states should work toward a decentralized pattern of operation.²⁰ The bulletin lists seventy-seven school finance goals.

Some of these goals are pragmatic and arbitrary and may not hold true under all conditions. (1) The fundamental test of central support is the adequacy of the educational provisions possible under the level of support guaranteed in every operating unit. Average expenditures have little value in determining adequacy; what is important is the educational returns possible at a given expenditure level. Maintaining an expenditure level of at least 80 percent of an average does not mean anything unless the average is sufficiently high to yield reasonable results. The same holds true for teachers' salaries. The national average does not mean anything. What is important is the caliber of personnel who can be attracted and retained at the salaries paid in a given state or locality. (2) There is no known arbitrary percentage of income which should be spent for public education. All that the percentages show is what certain states have been able to do over a period of years. If a state must spend a higher percentage of its income to attain an adequate and defensible level of schooling and other states have been paying that percentage for decades, it is rather difficult to raise the objection of inability to pay. (3) There is no particular reason for requiring communities to contribute the yield of a specified local property tax. They should be free to raise the local contribution for support of the foundation program by any local taxes authorized for school government. It is entirely possible that economic indexes of ability to pay and local nonproperty taxes will become more common in equalization programs. (4) There are no arbitrary norms for elementary versus secondary school cost allowances. State-support pro-

²⁰ National Education Association, Research Division, *School Finance Goals* (1946).

grams must advance with practice, the long-term trend being toward bringing the two closer together. Tuition allowances are unnecessary where allowances for operating expenditures are realistic. (5) The problem of capital outlays is not as simple as the goals imply as shown in Chapter XII. (6) The division between equalization support and general aid cannot be determined upon the basis of fixed percentages. It depends upon the size, strength, and taxing powers of local units of government and the taxing potential of the state unit with due regard for the methods of financing other locally operated government. There may be no general support under certain conditions. (7) It is impossible to set a minimum percentage of funds to be obtained from state sources. Again it depends upon the size, strength, and taxing powers of local units and the whole pattern of state and local fiscal relationships. (8) The goal of obtaining 99 percent of state revenues from non-property taxes may be unattainable in a predominantly rural state. The percent of state revenues derived from income taxes depends to a large degree upon federal income-tax policies. (8) The only sound goal where earmarking prevails is to require the legislature to appropriate from general funds the amount necessary to meet obligations to local units where the yield of the tax or taxes is insufficient.

The goals are formulated in a framework of local control and operation of schools from the nursery school through the junior college, inclusive of all responsibilities except teacher retirement, teacher preparation, and insurance. Yet certain of the goals easily could militate against this pattern. (1) Basing the foundation program upon teacher qualifications can easily become a means for aiding the fiscally strong units which can supplement state funds to compete for personnel. (2) Review of budgets by state agencies even if confined to minimum requirements can easily substitute state direction for local policy determination. In budgeting, the educational program must be looked upon as a whole. It is virtually impossible to separate state concern from local concern. Unless there are relatively few state minimum requirements which can be enforced without budgetary review, localities are denied the freedom and flexibility necessary to achieve results and adapt to changed conditions or to increased insight into the educational process. (3) Requiring school systems to spend any fixed per-

centage of their budgets for any purpose restricts operational freedom. Local units must be free to make optimum combinations of personnel and matériel expenditures to attain results. (4) Although the issuance of callable bonds is often desirable, it is not necessarily the best policy under all circumstances. (5) As pointed out in the preceding chapter, stimulation grants can substitute central direction for local initiative. A decentralized state school system should look to local units for progress. Central government should strengthen the structure, fiscal health, and taxing power of local government so that it can adapt itself. It has not been demonstrated that stimulation grants are necessary with an adequately supported foundation level. (6) It is questionable if any special funds beyond the foundation level are necessary if the foundation program is properly conceived. (7) The enforcement of school building standards is not always a step in the right direction. Some state minimum standards prevent localities from attaining educational purposes equal to or better than those presumed in the standards. Minimum standards in school construction should be used sparingly to protect the health and safety of pupils. Building standards based upon current or past practices can freeze operations into a mold for decades.

Most states which take for granted that they are moving in the direction of decentralization have made serious inroads upon local operational freedom. Any state desirous of attaining the potential advantages of a decentralized structure must eliminate from its policies state adoption of textbooks, required state courses of study, required state examinations, most so-called minimum requirements and regulations affecting the educational program, the physical plant, and methods of achieving results. Mandates must be reëxamined and most of them discarded. Inspection, preaudits based upon a narrow interpretation of law, detailed reporting, budgetary review, and restrictions on local budgetary and taxing power must be removed. If existing local government is not functioning as it should, the state must move toward reorganizing it, strengthening it, and providing it with the technical assistance required for successful operation.

The final test of the operational superiority of locally controlled education will be the results achieved. States must avoid actions which

contribute to failure, such as attempting to get localities to assume educational undertakings beyond their capacity to support and administer, usurping a large part of local taxing power to fulfill state purposes, failing to provide an adequate level of equalization support, exercising discretionary powers over support, permitting extreme decentralization, not providing competent leadership, technical assistance, research service, and public-relations programs designed to raise consumer standards in education, stressing legal restraints and enforcement of regulations, having lax certification requirements for management and instructional personnel, and not studying the functioning of the system and taking steps to improve any shortcomings discovered. Successful local operation does not imply state indifference. Indeed, it requires positive state action, such as centralization of certain undertakings which would strain local resources, equalization support sufficient to release taxing power for local initiative, strong professional leadership, and sufficient field and technical services of the type which cannot be provided economically in small units of government. Above all, the local budgetary process must be unrestricted—state support must be predictable in advance and guaranteed for the budgetary year. Changes should not be made without notice in advance of budget preparation.

CENTRALIZATION GOALS

Unless states are going to abandon many of their controls over program, curriculum, teaching methods, budgets, taxing power, and local management, they should attempt to secure the advantages of centralization without the disadvantages of decentralization. Delaware, e.g., has not attained the full advantages of central operation in such matters as transportation, purchasing, and personnel management. While exercising central budgetary control, it retains the expensive structure of local government for many operations. North Carolina has not fully realized the potentialities of central operation while restricting local operational freedom. New York, in fact, has a high degree of centralized control over matters which should be left to local initiative while allowing considerable operational freedom in matters which might be well centralized. Although its local units are having great difficulty in

maintaining existing programs, it is attempting to stimulate local operation and financing of junior colleges.

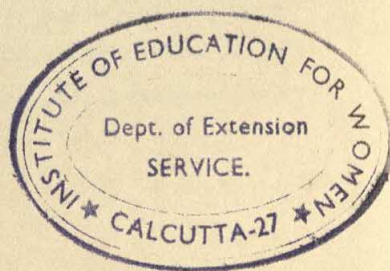
READINGS

Cillie (21); Morrison (107), ch. X; National Education Association (129); Strayer (166); Swift (171), chs. V and XIX.



..... Part Four

PUBLIC SCHOOL FINANCIAL MANAGEMENT



CHAPTER XVI

Management and the Budget¹

The attainment of maximum returns for public school expenditures depends upon the competence of management in the operating units. Central controls, supervision, structural reorganization, or improved federal and state school finance practice cannot overcome shortcomings of management. Management must have a concept of its true function, secure an effective and efficient organization, apply sound principles, and make full use of the potentialities of the budget and the budgetary process.

THE MANAGEMENT FUNCTION

Financial management is not something apart from educational administration. The economies or wastes possible in business management are insignificant compared with those in educational management. Practically every educational decision has financial implications, and minor finance decisions can hamper educational operations in a major way. Management of schools should be regarded as an integral whole.

MANAGEMENT DEFINED

Management is the bringing about of coördinated human action to achieve agreed-upon ends. It is the judicious use of means (the securing of the best possible combination of personnel and materials) to

¹ Based upon chs. VIII and IX of A. J. Burke, *Defensible Spending for Public Schools* (1943).

attain the objectives.² It is the skillful control of all factors to secure the "maximum beneficial results" with the "minimum expenditure of social resources."³

Management is human, personal, and organic, not mechanical, impersonal, and routine. It accumulates the contributions of all personnel directly or indirectly involved in the process; organizes their ideas, conclusions, reactions, criticisms, or suggestions; and provides convincing evidence for or against proposed policies. Once policies have been adopted, management plans, organizes, coördinates, and promotes the coöperative execution of the policies. Through management the responsibility and authority necessary to attain results are delegated. At all times management is aware of the personal values, factors, and problems involved and is able to lead, stimulate, and secure collaboration, coöperation, and coördination and to minimize friction, inefficiency, and wasted effort and material. Character, personality, energy, proper attitudes and behavior, and self-control are requisites in management. Management is always dealing with personalities and their coördination.⁴

Competence, coördination, and control resulting in economy and efficiency of operation are the signs of good public management.⁵ However, democratic control of public management by citizens should not be confused with political control. The ends or fundamental policies should be determined by the citizens or their representatives. Devising means to attain the ends or carry out the policies is the function of management. To fulfill its function, management should be unified under one professional executive responsible to the legislative or policy-making body. Executives should be selected upon the basis of their competence, should have tenure during competency, and should not be elected by popular vote. Executives should not be surrounded with restraints and controls which destroy initiative. They should be held responsible for results through audits, reports, and surveys by outside experts.⁶ Executives should be prepared at all times to justify their

² See Harvey Walker, *Public Administration in the United States* (1937), p. 17.

³ *Ibid.*, p. 8.

⁴ See E. H. Schell, *Administrative Proficiency in Business* (1936).

⁵ See Walker, *op. cit.*, pp. 8 ff., and J. M. Pfiffner, *Public Administration* (1935), pp. 9 ff.

⁶ See Walker, *op. cit.*, pp. 13 ff.

decisions and actions and should keep the public and legislative bodies informed upon their plans and activities.

DELEGATION OF RESPONSIBILITY

Legal responsibility for the management of public schools traditionally has been delegated to lay boards. As public education evolved, intelligent boards of education recognized that laymen were not competent to direct the operation of schools and they delegated responsibility to full-time executives. Unfortunately many school boards, especially in small school districts, did not delegate sufficient responsibility to assure efficient management. Frequently school boards have retained administrative control over the most important functions of management, such as the selection and employment of personnel—teaching or nonteaching. Financial or business management often has been conceived as a function independent of educational management, and responsibility for business affairs has been retained by school boards, committees of school boards, individual board members, attorneys, business managers, clerks, and others independent of the superintendent of schools. Moreover, school executives sometimes are elected or appointed for reasons which do not guarantee professional or executive competence; and some school executives are not masters of the professional knowledge and administrative techniques which have been developed in the past twenty-five years. Where such conditions prevail, it is almost impossible to get the kind of management required to obtain the maximum educational returns with the minimum of waste.

Delegation of full responsibility for management to a professionally and personally competent executive alone does not insure the best management of schools. Just as lay school boards cannot claim competence in the administration of schools, the superintendent cannot claim competence in the performance of all the technical educational and business responsibilities which should be delegated to him by school boards. As shown by Moehlman⁷ the specific responsibilities of school management may be classified into eleven categories; formulating a comprehensive educational policy, developing a school plant, selecting and organizing personnel, developing a curriculum, promoting attend-

⁷ A. B. Moehlman, *School Administration* (1940), p. 260.

ance, operating the plant, developing records, appraising the efficiency of operations, supervising program and personnel, interpreting the community and the schools, and securing and expending school monies. No one person can perform all of these classes of service competently. As the following analysis of financial management will show, no one person alone can perform efficiently all of the responsibilities involved in such management. Yet, in small school systems especially, school executives are trying to assume responsibility for performing functions ranging from supervising Latin and planning school buildings to selecting music teachers and purchasing soap. Too many school administrators fail to recognize the limits of their professional competence.

The responsibilities of the superintendent of schools preclude his assuming direct responsibilities for performance of many operational details. To guarantee good management the superintendent of schools must see the program as a whole and be able to secure the coördination and balance of personnel and material to achieve the results desired, but he must have the technical assistance necessary to perform all operations efficiently.

According to Moehlman⁸ the chief operational responsibilities of the school executive are: to plan a system which will carry out the policies adopted by the school board; to select, assign, and coördinate personnel in carrying out the plan; to keep operations going smoothly and efficiently; to provide means and incentives for the continuous improvement of personnel and operations; and to furnish leadership.

THE FINANCE FUNCTION

School management in common with other types of management has developed tools for financial management—the budget, procedures for handling funds, payroll procedures, purchasing procedures, records, accounts, reports, audits and other safeguards. These administrative procedures and techniques, however, can become unduly elaborated and magnified beyond their importance. Detail and routine easily can be substituted for management or leave little time for management.

⁸ *Ibid.*, p. 261.

Where procedures and techniques become ends in themselves and management becomes enslaved to them, the making of wise expenditures is replaced by detailed accounting for unwise expenditures. All aids to expenditure management are relative to the size of the school system and should be subordinated to prudent management. They should be functional and simple and be performed by persons with appropriate ability, preparation, and understanding. The executive should understand and use these details but he should not become involved in them except when something goes wrong. The executive and his chief assistants should reserve their energies for the important function of making wise decisions on matters affecting the values received for money spent.

The major responsibilities which affect the returns for money spent should be considered in financial management. These include: (1) delegation of administrative responsibility to persons possessing the necessary professional or technical competence, (2) the budget, (3) personnel, and (4) the use made of personnel and materials. Certain improvements possible in these four elements will be emphasized in this treatment.

Management, in making the budget and in its day-by-day operation of the schools, must be aware of certain decisions which have the greatest potentialities for waste or economy. Personnel decisions generally have the greatest influence upon expenditures, but other decisions, such as those relating to use of personnel; the selection, purchase, storage, distribution, use, and care of materials; the operation, maintenance, and protection of plant; the creation of indebtedness; and the conducting of related enterprises, such as transportation, cafeterias, offices, and laundry service, cannot be neglected. Safeguards and other aids to prudent management of income and expenditures should be used to the fullest extent, but they should not handicap the making of wise decisions relative to what is to be financed with public school funds. Adjustments to cyclical or long-term changes in prices and income also create some of the most baffling and pressing problems which management must face. Variations or differences in expenditure levels or unit expenditures always offer a challenge to management. Their meaning and significance must be understood.

ORGANIZATION

The coördination of human effort to achieve a purpose requires organization. The finance function has a place in organization, but as a service, not as a control. Finance should facilitate accomplishment, not impede it. It is subordinate to the function of the institution.

ORGANIZATION DEFINED

Organization is a systematic division of responsibilities and effort, a coördination of thinking and action, to achieve a purpose. Organization presumes a group of persons working toward common objectives. Through organization, group activities approximate the organic unity of individual activity.

There is no one type of organization suitable for all purposes. The achievement of military objectives, production of automobile tires, collection of Community Chest funds, or the education of children do not necessarily call for the same type of organization. The varying purposes may make different demands upon individuals concerned. The manufacturing of a product by machine methods calls for very different relationships among participants than does the rendering of a service like police protection.

TYPES OF SCHOOL ORGANIZATION

During the past quarter of a century the organization recommended for public education has had the following characteristics: (1) a small board of education elected by the people and responsible to them for the conduct of the schools; (2) the legislative function to be vested in this board functioning as a whole; (3) the chief executive to be selected by the board and responsible to it for executive functions; (4) the executive to have centralized responsibility and authority; and (5) the executive to delegate responsibility and authority to subordinates.

This pattern of school organization is the outgrowth of weaknesses in the type of organization which preceded it. It has been adopted to correct the inefficiency, waste, and corruption inherent in that type of organization in which matters requiring professional expertness had

been left to a number of standing committees of the board of education, who often acted independently of each other and of the board as a whole. It has aimed to achieve the coördination and efficiency inherent in the business or industrial organization.

There has been a growing demand for more democracy in school administration and a more democratic organization would be better for attaining the purposes of education. Democracy in organization is highly desirable and effective for *thinking*. It offers the clash of opinion out of which comes creation, inventiveness, and other types of progressive thinking, except that without synthesis it may result only in confusion and conflict. It is hardly ever effective, however, as a way of getting things done. Social experience has demonstrated the fact that when action is needed there must be responsibility fixed in some one individual. These observations must be taken into account in school organization.

Educational organization can be conceived as being concerned with two interrelated functions: (1) *thinking or planning* and (2) *doing or executing*. These two functions must be so organized that each will contribute to the other. Personnel engaged in "doing" should have an opportunity to think, evaluate, and criticize through channels which will result in an improvement of the process. Those engaged primarily in "thinking or planning" should have an opportunity to share the experience of those who know the realities of trying to put plans, policies, or ideas into effect. They should also have an opportunity to have sound ideas tested in practice.

ORGANIZATION AND FINANCE

A school organization which stimulates individual growth, thinking, creation, and invention and pools the results of collective thinking and experience to devise better ways of achieving results and which, through a division of responsibility and effort, clear-cut lines of responsibility and authority, and careful attention to human relationships, makes possible smooth and efficient operations with a minimum of friction and waste of time and materials, contributes to a major purpose of financial management, the attainment of maximum returns for money spent. It contributes much more than could be achieved by a

very competent, highly trained, and well-organized financial or business staff.

The size and organization of the staff handling the financial and business affairs of a school will vary with the size and complexity of the school system. However, certain general principles have evolved which apply to all systems. (1) The board or legislative body having responsibility for educational policies should have control over the financing of those policies, subject only to the will of the people in the unit of government concerned.⁹ Otherwise, the body having control of finance has in fact assumed responsibility for determining educational policy. (2) The board of education should have control over the services involved in financing schools except where the coöperative arrangements with other local units of government are feasible. (3) The financial management of schools is a responsibility of the executive. Persons responsible for business affairs should be directly responsible to him and not directly responsible to the board.¹⁰ Dual responsibility presumes that financial management is an end in itself and not a means for securing the maximum educational results with the minimum outlay. The purpose of the schools is to educate, and those responsible for administering finance should not be in a position to control education, as often is possible under dual organization.

In a large school system employing one or more specialists in finance, the budget, insurance, management of assets, purchase and service of equipment and supplies, accounting, and financial research services should be centered in one office directly responsible to the superintendent or an assistant superintendent. This office should not be part of the line organization for the entire school system, but should have a staff (advisory and service) relationship to other offices, principals, and teachers. In smaller systems where such specialization is impractical, services closely related to finance, such as management of nonprofessional employees, operation and maintenance of plant, and transportation, may be centered in one office under the direction of the superintendent..

No matter how the finance function is organized in a particular

⁹ See Educational Policies Commission, *The Structure and Administration of Education in American Democracy* (1938), pp. 47 ff.

¹⁰ *Ibid.*, pp. 55 ff.

school system, the executive or one of his educational assistants should make any financial decisions which affect the educational policies or practices of the schools. Those responsible for finance and allied managerial functions should not be divorced from educational administration. Indeed, all such employees should have thorough preparation in education and school administration, should work in close coöperation with those primarily responsible for educational functions, and should be directly responsible to the executive. The foundation of the budget, for example, is the educational needs of a school district as formulated in plans and policies. Furthermore, accounting must yield the information needed both in educational and financial management; purchasing must be based upon the specifications required in materials to achieve educational purposes; and operation and maintenance must conform to standards which will promote the results which the schools are trying to attain.

PRINCIPLES OF FINANCIAL MANAGEMENT

Policy formulation and administrative judgment require a body of principles; but public school finance has few principles which can be regarded as scientific laws, e.g., there are no principles for allocating specific percentages of a budget to specific purposes. What is done in finance depends upon institutional purpose, available techniques, public opinion, economic conditions, the nature of school government, and other equally dynamic factors. What we have are guides to action based upon past experience.

SOME GENERALIZATIONS ON ECONOMY

Economy is a generally misunderstood concept in management. It frequently is confused with any retrenchment or reduction in existing expenditures. It often is made synonymous with downward adjustments in expenditures in relation to downward trends in income or prices. It is used in the sense of parsimony or excessive frugality. It is also used to mean the getting of the greatest amount of goods and services for the least financial outlay. Low initial expenditure is considered economy by some. Low unit costs are frequently regarded as a sign of economical management.

Retrenchments or overall reductions in expenditures by themselves do not mean economical management; indeed, they may mean increased waste. When applied on a statewide basis through reductions in state aid applying to all districts, they penalize the districts which have been economically managed, reward the inefficient, and increase inefficiency and waste. The economically administered districts often are forced to curtail the quality of management or personnel, to eliminate sound programs, to postpone essential outlays or maintenance, and to purchase items with low initial cost regardless of future costs, with the result that wasteful spending is increased. Such reductions do nothing to remove the causes of inefficient management where it exists.

Adjustment to changed levels of income and prices is one indication of economical management, but downward adjustment alone does not mean economy. Indeed, it means increased waste and inefficiency when incomes and prices begin to rise again, through inability to retain and obtain qualified personnel, maintain services, and make the most desirable purchases of goods and services. Such adjustments must work two ways if they are to promote economy.

Parsimony, low initial costs, and low unit costs certainly are not necessarily conducive to economy. Failure to provide adequate educational services may reduce the productive capacity of a community, state, or nation; hamper the working of economic institutions; and lower the general standard of living. Low initial costs may increase wasteful spending in the future through excessive maintenance costs and the necessity for premature replacements. Low unit costs may be nothing more than an indication of poor quality and inadequate quantity of educational services. There may be more waste in low unit costs than in high unit costs.

True economy in education is the wise or prudent spending of money. It means providing and maintaining educational services and standards and making educational adaptations which will enhance the productive capacity of the nation, insure the wise consumption of goods and services, facilitate the operation of economic institutions, and promote the general welfare and the survival of the nation. It means utilizing the most efficient combinations of personal services and material goods to achieve the results desired, but this is relative to efficiency of

the economy as a whole. True economy involves adjusting expenditures to upward and downward trends in prices and income, requiring careful decisions in long-term debts and the place of borrowing in current spending. It means careful attention to both quantity and quality in hiring personnel and making purchases, with consideration not only for present outlays but also for future costs. Economy can be judged only in terms of the return over a period of years, not in terms of initial expenditures alone. Economy is not a depression activity alone; it generally is more important to economize when the economic system is functioning efficiently.

Economy in expenditure management cannot be divorced from economy in all types of school management. Collection of all monies due the school system at the minimum cost; the securing of all income due from all sources, such as interest on balances; the protecting of all funds from loss through theft, graft, carelessness, or other acts or omissions; the avoiding of overpayments; the protection and maintenance of all property; the efficient management of personnel; the protection of the school district from public liability of lawsuits; and similar activities are all involved in economical administration.¹¹

OTHER CONSIDERATIONS

In the attempt to achieve economy in budget planning and daily administration, caution should be exercised to avoid overemphasis on economy at the expense of equally important considerations. The morale of employees, the willingness to discard outworn policies and practices, the readiness to adopt new ends or means, the broader public interest, the welfare of future generations, the attention to individual differences, and the maintenance of public faith and confidence are important considerations in expenditure management. To make economies which destroy the morale and enthusiasm of employees only increases friction and inefficiency, possibly wiping out the effect of the economies. Good judgment, consideration of all factors, and understanding and support on the part of all concerned are important in economical management.

The application of the prudential principle can easily impair the

¹¹ See H. H. Linn, *Practical School Economies* (1934), ch. III.

application of other principles, such as the adaptability principle, but it also can promote adaptability. It is a mistake to think that the only way to finance new enterprises or improvements is to increase total spending. Very frequently the elimination of waste and inefficiency in present spending will provide more leeway for adaptation than can be achieved through the local property tax or increased aid from other units of government. Economical management also often can assure greater equality of opportunity than can increased state aid to weak and inefficient units of administration. The proper application of the prudential principle cannot possibly conflict with the equally desirable principle of adaptability.

BALANCED JUDGMENT

The test of good financial management is the degree to which it can weigh all considerations in making judgments. At least the following seven generalizations should enter into fundamental decisions on school money matters:

1. Attainment of purposes. The mere elimination of specific indefensible expenditures without attention to steps which should be taken to increase the effectiveness of public schools is not economy. The greatest waste can come from failing to spend enough to attain the purposes of the schools. In most school systems, money saved through economies should be spent to improve the personnel and means required to attain public school objectives.
2. Removal of causes. Economy must be achieved by specific action to remove the causes of indefensible spending, for example, governmental structure, outmoded state mandates, traditional practices of questionable value, failure to make merit appointments, political control, management by untrained personnel, or failure to establish safeguards. High spending is not by itself an indication of waste: there may be more waste in low expenditures when results are considered. Arbitrary reductions in state support, tax limits, and undesirable controls which hamper the efficient to penalize the inefficient are not justified.
3. Human reactions. Economies realized at the expense of the mo-

rale and efficiency of school employees result in a net loss. Emotions as well as facts must be taken into account. Time should be taken to secure the understanding, coöperation, and equity essential for lasting results. Personnel management and democratic organization should be strengthened and solutions should be worked out by the management and staff in the unit of government involved.

4. Positive action. Positive action to improve management, budget making and administration, prudence and economy in management, and personnel will be more effective in the end than negative actions or controls. Mandatory legislation, legal restraints, budgetary control, and legal safeguards are no substitute for efficient day-by-day management and operation.

5. Perspective. Immediate financial savings resulting in future waste or increased indefensible spending are very questionable. Postponement of small repairs which result in high maintenance costs in the future; purchase of items at low initial cost without regard to future cost for services, operation, or maintenance; deterioration in the caliber of management or personnel; and a curtailment of effective programs which will handicap children for years to come, can hardly be defended.

6. Economics. In thinking of economy, the veil of finance must be lifted to see the economics. In adjusting school expenditures to lower income or price levels, when there is widespread unemployment, it may be most unwise to eliminate personnel. It may be much sounder economically to make the maximum saving on personnel during a period of war or inflation when there is a shortage of manpower. Real economy is determined by the use made of personal services and materials, not alone by the amount of money spent.

7. Adaptability. In applying the principles of prudence and economy it is very easy to violate the equally important principles of adaptability and flexibility. The freedom and initiative needed to discover new needs and improved procedures and methods for getting results, to discover and discard outworn policies and practices, and to adjust to the particular needs of communities and population differences can easily be destroyed by restrictive measures.

INTERNAL SAFEGUARDS

In public financial management it has become a generally adopted principle that the person, bureau, or agency authorized to create liabilities or make expenditures should not be the person, bureau, or agency to make disbursements. The Engelhardts state the principle in this way: "The responsibilities and accountability for the receipt, care and disbursement of funds should be separated from those of the purchase, and payment of service or materials."¹² This principle applies to all funds managed by the school system, general as well as internal, the only possible exception being small petty-cash funds.

Responsibility and authority to create liabilities and make expenditures authorized by the budget most certainly should be delegated to management. Otherwise it cannot be held responsible for result. Management in turn may delegate responsibility and authority to a personnel officer or bureau, a purchasing agent or bureau, or other officers or bureaus. All proposed commitments, however, should clear through a central agency so that management may see each in relation to others. Responsibility to authorize expenditures, make audits, check receipt of all goods and services, keep records and accounts, and perform other acts relative to financial management should be clearly allocated and generally understood.

The custody of funds and the authority to make disbursements from funds need not be divorced from management. The treasurer may be responsible to management, but the chief executive and those whom he has authorized to create liabilities or make expenditures should not handle funds or disburse funds.

Prudent financial management requires an accurate, complete, and systematic record of school board action. The minutes of the controlling board are the basic record of a school system. Audits, surveys, accounts, and reports must refer back to this record. Therefore, the budget, the appropriating resolution, and every motion adopted should be recorded, showing the vote, with a topical heading in the margin which should be indexed.

¹² N. L. Engelhardt and Fred Engelhardt, *Public School Business Administration* (1927), p. 70.

FUNCTION OF THE BUDGET

No aspect of financial management is any more important than the budget. It is a fundamental responsibility of management. It is the means through which good management can achieve the most results with the resources that can be made available. The budget potentially is the most useful tool management possesses; yet too often budget making is reduced to a simple routine. The budget document is confused with the budget.

THE MEANING OF A BUDGET

A public budget is a well-conceived program of governmental action for a given period of time, with reasonably accurate plans for making the financial outlays involved and raising the necessary revenues. Buck, in his book on public budgets, puts stress upon the fact that a budget is "a plan of action for the future."¹³ He emphasizes that policies, decisions, programs, services, commodities, obligations, operation, and performance, not the routine estimating of receipts and expenditures, are the essence of "public budgeting."¹⁴ Nor is the preparing, filling in, and publishing of a budget document (usually referred to as a budget) indicative of "budgeting." Unless there is a well-conceived plan of action, an intelligent consideration or weighting of all governmental needs or requirements, and a careful selection of activities to be financed during a given period with monies supplied through operational economies and revenue sources, "budgeting" is not taking place.

The preparation of a budget in government is not a periodic or even an annual activity. It is a continuous process. It involves long-term study, thought, and planning. It is part of the process through which governmental institutions achieve rejuvenescence, adaptability, or maximum effectiveness day by day and year by year. Existing legal and financial institutions and practices require periodic budgets, usually for a year. Budgets for a fixed period of time, however, are merely reflections of the continuous application of intelligence to governmental activities, their financial requirements and limits. Budget-making pre-

¹³ A. E. Buck, *Public Budgeting* (1929), p. 4.

¹⁴ *Ibid.*

sumes ideal plans of action, spending, and securing needed revenues to attain ideal results. Taking all factors into consideration, what can be done in any one year will be the best approximation of such plans which can be achieved. Annual budgets are effective to the extent to which they reflect carefully worked-out continuous, long-term plans.

FUNCTION OF THE BUDGET

The traditional function of the public budget has been to plan and control financial outlays and taxation, but the budget has many other functions. In a democracy one of its most important functions is to provide a basis for democratic or legislative action.¹⁵ Through the budget the people or their representatives can see the requirements of government and the evidence to support governmental requests. Through the budget they can concentrate on the broad policies, leaving the details and technical problems to specialists. The budget enables them to see the whole plan and its major subdivisions. They can study, evaluate, and decide. Through budget hearings and budget approval they can exercise control over the activities, outlays, and income of their government.

Another important function of the public budget is to improve the administration or management of governmental affairs. Where good budget-making is demanded, professionally prepared, informed, able, and skillful public administrators are in demand. The mere political official is not wanted. The budget requires the administrator to formulate long-term plans for governmental undertakings, to see the needs of other units or departments, to coordinate activities within his own department, to have work plans for each undertaking in the budget, to foresee expenditure requirements, to estimate receipts and balances, to control expenditures, to economize, and to evaluate what is being done under his direction. A good budget makes the executive responsible for efficiency, economy, and good management.

It is not the function of a budget to stifle initiative, flexibility, adaptability, or judgment for the budgetary period. There should be a reasonable degree of freedom left to administrative officers to make necessary adjustments during the year. However, the budget should

¹⁵ See A. E. Buck, *The Budget in Governments of Today* (1934), pp. 3 ff.

not permit initiative to run wild. If an adaptation conceived during the year is good, a year of criticism, planning, and mental revision, accompanied by a certain amount of experimentation within the limits of the budget, will enhance it rather than destroy it. On the other hand, there has been a decided tendency in recent years among taxpayer groups to make the budget a rigid financial cast. Such a concept certainly violates the adaptability principle.¹⁶

BUDGET-MAKING

There are three steps in budget-making: (1) formulation of program of action—an educational plan, (2) translation of the program into reasonably accurate expenditure estimates with supporting evidence, and (3) recommendation of a sound financial plan for meeting the expenditures.

THE EDUCATIONAL PLAN

A sound school budget begins with the objectives of the schools, continually determining the relative emphasis to be placed upon each objective; continuously reviewing and evaluating all past policies, programs, activities, practices, or accomplishments and the evidence supporting each; continuously weighing these against other possibilities and educational provisions not being made; recommending a balanced and coördinated plan of action, or work program, for a given year, with supporting evidence; summarizing needs not being met, or provisions not being made, and the reasons they are omitted; and recommending possible plans for taking care of these in the future.

A sound school budget recommends plans of action, or programs of work, for public schools which do not duplicate the work of other governmental agencies, which make maximum use of services provided by other governmental agencies, which foster a balanced and coördinated program of action for government as a whole, and which take into consideration the present and future needs of all governmental services.

Executing a budget requires a direct line of responsibility, from the chief executive to the person actually carrying on the operations. Build-

¹⁶ See P. R. Mort and W. C. Reusser, *Public School Finance* (1941), pp. 154 ff.

ing the educational plan, however, requires a democratic division of responsibility, a sharing of responsibility. Persons having an intimate acquaintanceship with the individual children and adults served; with community problems; with the group, state, and national interest; and with the broader implications of education, must be heard in making budgetary decisions. The background, experience, skill, intelligence, inventiveness, criticisms, and suggestions of all individuals and groups concerned, including the children or adults served, must be pooled. There must be channels for the exchange of information and ideas which affect the budget. Participation, interest, and assistance must be welcomed, not discouraged.¹⁷

It is easy in educational planning to get involved in details and neglect basic or fundamental elements. In making the budget, attention should be centered upon the objectives, ideals, emphasis, and standards to be achieved, and the major policies adopted to carry out purposes, especially those relating to curricula, services, organization, personnel, materials, and housing.

The objectives, ideals, emphasis, or standards which a school system is attempting to attain should be the center of attention in budget-making, budget discussions, and budget publicity. These should be re-examined and modified from time to time as necessity requires. All persons concerned should be familiar with them and should have an opportunity to participate in their formulation and modification. Written or stated aims have little value except as they become the ends of all operations and activities. What should be watched are the objectives and emphases actually implied in what is being done day by day and in the measures or other means used to evaluate what is being done.

Having agreed upon objectives, emphases, and standards to be attained through the educational undertaking, the means must be considered. These include courses, curricular services, personnel, techniques, procedures, and activities, whose planning cannot be divorced from organization, limitations, and other policies relating to them.

¹⁷ See A. J. Burke, "Is It Possible to Organize a School System More Democratically Without Sacrificing Efficiency?" *American School Board Journal* XC (May, 1935), 15-16.

EXPENDITURE ESTIMATES

The spending program in the budget is a careful estimate of the financial requirements for carrying out the plan of action. It applies both to the long-term plans and the plans for any given year. Since what can be spent in any one year determines, to a considerable extent, what can be done educationally during the year, the expenditure plan, the revenue plan, and the educational plan must be considered together.

As shown in Chapter III, it is not easy to translate the quantitative, and especially the qualitative, aspects of an educational program into expenditure requirements. First, the goods and services required must be estimated, which is largely a matter of judgment. Next, the costs or prices of these must be anticipated. In estimating costs or prices many factors have to be taken into consideration—social policies, legal requirements, price levels and trends, salary and wage factors, and many others listed in Chapter III. The two major factors, of course, are salary and wage policies and adjustments to fluctuating prices and incomes. These problems will be taken up in later chapters.

An important guide for estimation is found in records, accounts, or analyses of past expenditures.¹⁸ An accounting system, which will reveal the costs of goods and services by function, character, undertaking, level, object, buildings, and other organizational units over a period of years, is a most valuable tool. Where such data reveal trends, changes, or discrepancies, analyses of causes will often be found valuable for budgetary purposes. Nevertheless, few school systems know what various curricula, divisions, activities, services, or other units cost; nor will the accounting systems generally used reveal such cost data¹⁹ for even a single year. Many school systems are too small to provide economically for the kind of accounting needed in making budget estimates. Until many school units are reorganized and accounting practices are improved in most districts, expenditure estimates will be nothing more than guesses.

¹⁸ See A. B. Moehlman, *Public School Finance* (1927), pp. 4 ff.

¹⁹ See A. G. Grace and G. A. Moe, *State Aid and School Costs* (1939), pp. 360 ff.

In addition to summaries of legal requirements, schedules of payments of interest and principal coming due, schedules of insurance-premium payments, salary-schedule requirements, inventories, and unit cost studies, the school authorities should collect data on price trends and factors likely to affect prices, such as are published regularly by the United States Department of Commerce and Department of Labor and various commercial agencies. Up-to-date facts on prices of goods and services consumed by schools should be available at all times.

There are a number of major expenditures for public schools which require long-term planning, taking into account economic trends and the business cycle. Salary and wage policies should be projected into the future to see what will happen under certain possible or probable conditions, such as changes in income, revenue, or living costs. Certain major undertakings, such as the common-school concept of secondary education, should be projected in terms of population, enrollment, and cost and revenue trends to estimate its ultimate or "terminal cost" and the ability to meet those costs.²⁰ Capital improvements should be planned in terms of trends in order that they will be undertaken when capital is relatively plentiful, prices low, or interest rates low. Fixed charges, debt service, and other inflexible expenditures should be kept at a minimum in budgets, as long as the economy is subjected to periodic fluctuations in income, taxpaying ability, and prices. Inflexible budget requirements cause many of the budgetary difficulties in schools.

In presenting expenditure estimates two methods are followed—the lump sum and the detailed or line item method. The lump-sum method recognizes the difficulties in accurate estimation and the need for judgment in administration. It holds the administration responsible for results.²¹ It is valuable in so far as the lump-sum items are based upon detailed estimates. It is dangerous to the extent that it fails to associate expenditure with program or services and the extent that appropriating bodies can evade responsibility for curtailments in services. The line item or detailed budget, on the other hand, attempts to meet these objections. It is valuable insofar as the details are planned or formulated by the administration. It is dangerous if the detail destroys initia-

²⁰ For a discussion of terminal costs see H. C. Morrison, *The Management of the School Money* (1932), pp. 446 ff.

²¹ *Ibid.*, p. 509.

tive and judgment. The budget should be sufficiently detailed to associate expenditure and service or results and to fix responsibility.²²

In presenting expenditure estimates all significant decreases or increases in expenditures should be explained. It is particularly important to justify any proposed increase in expenditures.

Another controversial phase of expenditure planning is the allowance which should be made for contingencies. Morrison defends the contingent fund, but would limit transfers from one category to another.²³ Some states prohibit the inclusion of contingency funds in budgets. De Young holds that the use of contingency funds should be limited, by keeping the amounts small, labeling the fund "emergency," basing the amount upon previous experience, and using the funds only upon the approval of the board of education.²⁴ Including a large contingency fund defeats the purposes of the budget and is the equivalent of "padding." The executive should be permitted to make minor transfers from unencumbered balances within the major subdivisions of the budget. Major transfers from one fund to another or from one major division to another should have board-of-education approval.²⁵

REVENUE ESTIMATES²⁶

In making revenue estimates it is not sufficient to figure anticipated state aid and other nontax revenues and then establish the local tax rate. There are long-term aspects of revenue planning as well as a number of variables which should be considered annually. Among the long-term problems to be considered are these:

1. What proportion of total consumer expenditures is going for public education?
2. How willing are consumers to spend more of their incomes on public education?
3. What are the trends in the economic life of which the community is but a part?
4. What are the economic trends within the community—industry,

²² See C. A. De Young, *Budgeting in Public Schools* (1936), pp. 86 ff.

²³ Morrison, *op. cit.*, pp. 494 ff.

²⁴ De Young, *op. cit.*, pp. 372 ff.

²⁵ *Ibid.*, pp. 370 ff.

²⁶ See De Young, *op. cit.*, ch. IV, for detailed procedures.

production, income, and other data which determine the local taxpaying ability?

5. What effects upon local tax revenues will such factors as debt incurred by other units, taxation for other purposes, and state controls over local taxing and spending power have?

6. What are the trends in local support for education—assessments, tax collections, and the like?

7. How much of the burden of support should be shifted to state and federal taxes? What future changes in state and federal aid can be anticipated?

8. What returns can be expected in the future from the investment of trust funds and endowments?

A most important consideration in determining what should be spent upon public education is the total consumption of goods and services in a nation, state, or community. A civilization which is spending an undue proportion of its income on material goods and services which cater to temporary pleasures and satisfactions is heading for disaster. There must be a balance among present consumption, the creation of capital for future production, and the preservation of civilization and productive capacity through the education of the oncoming generation. Material goods and services without ideals, knowledge, standards, and understandings will not serve man's best interests. Only if public education has a proper place in the total pattern of consumption can a democratic civilization and private enterprise economy secure a balance among the various consumer possibilities, promote the general welfare, and survive.

Knowing how much income should be spent on public education in relationship to total consumer expenditure patterns and trends will not assure adequate revenues. How willing are consumers to spend more on the education of the present generation and future generations than to spend money for the immediate satisfactions arising from the consumption of alcoholic liquors or gasoline for pleasure driving?²⁷ Another primary problem in planning revenues, therefore, is creating a willingness to spend money on public education. This is conditioned

²⁷ See F. W. Cyr, A. J. Burke, and P. R. Mort, *Paying for Our Public Schools* (1938), ch. V.

by the value placed upon education, the effectiveness of past schooling, confidence in the results obtained with monies expended upon public education in the past, and the effectiveness of advertising and promotion to increase the consumption of material goods and services. Cultural promotion must be continuous, intense, and appealing if it is to compete with other types of promotion which are continuous, intense, and appealing. Such promotion is an integral part of the budgetary process.

It is true that necessity and willingness are primary, but little can be accomplished unless there is machinery or techniques for raising the revenues. The price of education must be related to other prices and fluctuations in income. The tax structure, tax administration, revenue plans, spending for other governmental purposes, and governmental structure must be such as to permit the spending which is necessary and the public is willing to approve. Taxation, governmental spending, the structure of government, state and federal aid plans, and all possible improvements in public finance institutions are subjects for thorough study by those responsible for school budgets.²⁸

In arriving at revenue estimates for any one budget, legal limits on the taxing power of the unit, data on revenue receipts for a period of years, tax delinquency, valuations, balances on hand, economies effected or possible, expenditures of and taxes to be collected by other units of government, state and federal aids, and other sources of revenue loom large. However, it should be realized that all support or taxes in the last analysis come out of income, which in turn depends upon the price structure. Data on payrolls, wholesale and retail sales, rents, living costs, and prices, therefore, are of utmost value in making annual revenue estimates. It should be remembered also that arbitrary limitations on the taxing power make "budgeting" subsidiary to revenue. Under such conditions budgeting becomes merely "planning the expenditure of a fixed revenue."²⁹ Budget-making, in the best sense, presumes taxing power and tax leeway. However, since the tax structure of many local units and states cannot reach the income produced in a national economy, good budget-making cannot take place without a re-

²⁸ See Parts I and II and Cyr, Burke, and Mort, *op. cit.*, ch. V.

²⁹ See Morrison, *op. cit.*, p. 489.

allocation of control over budgeting to a governmental unit, which can reach the income, or without the creation of local administrative units capable of making good budgets, with the funds and tax leeway made available by state and federal aids.

BALANCING THE BUDGET

Perfect budgetary balance is impossible, because both the expenditure and revenue plans involve judgment and prediction, and because certain variables, such as prices, continue to operate after the budget has been adopted. The best that can be expected is relative balance, with receipts and expenditures almost equaling each other. Large balances or deficits indicate poor estimating and planning. A balanced budget usually means one which shows a slight excess of revenues over expenditures, both at the beginning and the end of the budgetary period. Where budgetary estimates reveal a deficit, expenses must be cut or revenues increased. Where deficits begin to appear during the year, expenditures must be cut or borrowing must take place. Continued deficit-financing is dangerous in small units of government, like school districts, and is highly controversial for larger units.³⁰ It is a gamble at best and can easily lead to insolvency.

THE BUDGETARY PROCESS

The budgetary process begins with the preparation of the budget, but there are several other essential steps in the budgetary process: (1) presentation and adoption, (2) administration, and (3) appraisal. Before the budget can be presented for study, discussion, revision, or adoption it must be summarized in a budget document.

THE BUDGET DOCUMENT

The budget document shows the educational plan, spending plan, and revenue plan for a definite fiscal period. It crystallizes the budget for presentation, interpretation, and adoption. It becomes the basis for explanation before official bodies, for official notices, for discussion at public hearings, for publicity, and for summarization. It becomes a point of reference for future budget-planning, and provides a cumula-

³⁰ See Buck, *The Budget in Governments of Today*, pp. 116 ff.

tive record of past plans, problems and decisions. When carefully written up with attention to simplicity, clarity, and emphasis, it promotes the mutual understanding required for successful budgeting.

The contents of the budget document depend upon the groups to which it is to be presented. A board of education or the employees of a school system may have the background to interpret or understand the budget without much explanation, but the farther the budget is carried away from the school, the more important simplicity, clarity, emphasis, illustration, and explanation become. In general, a budget document should contain a concise summary or overview, perhaps in a letter of transmittal, a description of the educational program to be financed, estimates of balances, receipts, and expenditures with supporting evidence and explanation, definitions of terms used, illustrations required for clarity, a table of contents, and an index if necessary. The document should clearly show the legal and community designation of the school district, the beginning and end of the fiscal period covered, and the date the document is presented.

In presenting the budget document to any lay group, either orally or in writing, technical educational or financial terminology should be avoided. Justifications should be factual and explanatory, not defensive. The summary should call attention to important decisions, problems, or issues, subordinating details to the broad outlines of the plans.

Public understanding and support must be built up over a period of years. The budget document should describe not only the educational program being financed, but also the program that the community should have. It should be used as a means for gradually raising consumer standards in education. Desirable undertakings that are not being provided should be described and explained. The reasons for not providing them should be discussed. Needed reforms in local taxation, state support, or federal assistance should be stressed. In brief, the budget document serves to gain support for improvements in program and for the changes in governmental structure, taxes, or financial devices required to make the improvements.³¹

The format of the budget document depends upon the group to whom it is to be presented. For staff and school-board study, typed or

³¹ See De Young, *op. cit.*, pp. 252-256.

duplicated copies are desirable. Changes in contents, wording, emphasis, or organization can be made without waste. For presentation to reviewing bodies it may be necessary to summarize the document on prescribed forms, but it often will be necessary to supplement this with typed explanatory or illustrative material to secure proper understanding. In presentation of the budget document to the public, attractiveness becomes paramount. Good-quality paper, attractive cover design, ample illustrative material (pictures, graphs), readability in type, and appealing page arrangements are essential to attract attention and interest.³²

PRESENTATION AND ADOPTION

The budget as summarized in the budget document should be presented well in advance of the beginning of the fiscal period to the legislative body having power to adopt it. Before it is formally presented the body should be kept continuously informed of major problems and decisions contemplated. Advance notice should be given as to the date of presentation. The presentation should be carefully prepared by the superintendent or the person delegated by him to present and explain the budget. Ample time should be allowed for presentation and explanation. The executive budget should be offered as a recommendation only. The legislative body should have sufficient time for questioning, study, discussion, and hearings. Where the budget has to be presented to other bodies, municipal, county, or state, for review or approval, a calendar should be made up and presentation made at the time required. Frequent conferences should be held with officials concerned before presentation, so that mutual understanding exists before action is taken on the budget.³³

Although legally a budget sometimes can be adopted after the fiscal year begins, good management requires adoption before the fiscal year begins. Legal provisions as to notice, publication, and hearings should be complied with before adoption. Regardless of legal requirements, every effort should be made to arouse public interest, study, discussion, and suggestions before the budget is finally adopted by the body hav-

³² *Ibid.*, ch. VIII.

³³ *Ibid.*, ch. VII.

ing the power of approval. The resolution by which the budget is adopted or the appropriation resolution should be carefully recorded in the minutes of the body adopting the budget. The resolution should clearly identify the specific budget authorized as to purpose and amounts and the dates covered. A copy of the resolution should be sent to the agent or agency having power to levy and collect the taxes or other revenues. Persons authorized to make disbursements also should receive notice of the budget authorized.³⁴

ADMINISTRATION

After adoption the budget estimates become the basis of action and accounting in administration. They serve as a guide, not as a mold.

Budgetary control of expenditures begins with the formulation of the budget, but the budget acts as a control throughout the budgetary period. The budgetary plans provide for spending money on the most essential activities, planning to get the most return for money spent. The attainment of these objectives, however, depends upon the control exercised throughout the life of the budget. Budgetary control requires accounting, standards or specifications for services and materials to be purchased, sound personnel and purchasing policies, standards for the use and consumption of goods and services, work plans, standards for performance, and means of appraisal or evaluation.

The first step in budgetary control is transferring the various budget allotments to the accounts of the school district. Thus each department, division, unit, or branch of the service is held accountable for the amount which it is authorized to spend. Throughout the year these entries call attention to the original authorization, the amount spent to date, and the amount of the unencumbered balance. Hence, accounting and reporting are important in budgetary control.³⁵

The next step is carefully prepared work programs for each department, division, unit, or branch of the service having an appropriation authorized by the budget. Such a plan should show not only what is to be done during the year but also what goods and services are to be consumed, how much these will cost, when payments must be made,

³⁴ *Ibid.*, ch. IX.

³⁵ See ch. XX.

how much revenue will be taken in, and when this can be expected. Programs of this kind enable the executive to see the work of the school system as a whole, to anticipate expenditure requirements throughout the year, and to adjust any discrepancies between expenditure requirements and balances on hand at certain times.³⁶

The allotment plan of budgetary control, a compromise between the lump-sum and the detailed budget, is sometimes used in public administration as a means of control. Under this plan budgetary requests are made in detail, but appropriations are made in lump sums, with authority given to management to make monthly or quarterly allotments upon the basis of demonstrated need. It really forces the continuous preparation of work plans but can easily stifle initiative under certain types of management.³⁷

Accounts and work plans are valuable aids to budgetary control, but both are secondary to good management. The purchase of goods, their distribution, care, use, and control; the employment of personnel, their assignments, work loads, compensation, protection, and supervision; the operation, maintenance, utilization, and protection of plant; and all other aspects of management are the important factors in control. Regular audits and reports and occasional surveys by outside experts are necessary to assure good management.

APPRAISAL

The importance of the budgetary process requires periodic checking. Operational and postaudits described in Chapter XX can do much to bring about improvements in budgets. Occasional surveys by outside experts are most desirable. Continuous self-criticism based upon comparing actual practices with theoretical concepts, criteria, or standards is essential. One danger in self-appraisal is balanced judgment. Very frequently practices are appraised by use of check lists without due regard to extreme importance of certain items and the relative insignificance of other items, all of which appear to have equal weight in the check list. Check lists are valuable tools if used properly. They can be

³⁶ See Buck, *op. cit.*, pp. 456 ff.

³⁷ See W. B. Munro, *Municipal Administration* (1934), p. 37.

used to determine the completeness and effectiveness of the budget document. They can be used to check inclusiveness and completeness in making estimates. To a limited extent they can be used to evaluate other steps in the budgetary process.³⁸

There are a number of specific criteria to which a good budget should conform, but these will not be discussed in detail in this chapter. Those responsible for public school budgeting should be familiar with such standard works as those of Buck and De Young. Among these specific criteria should be included the following:

1. A good budget is inclusive of all aspects of the public school program involving financial transactions, including the curricular or extracurricular. There should be no separate budgets unless these are attached to the main budget as subsidiary budgets.

2. A good budget is prepared and executed by a professionally trained educational administrator, with the assistance of all persons responsible for various phases of the program, persons familiar with the educational needs of the community, and persons familiar with economic and public finance factors.

3. A good budget is adopted by the legislative body only after critical study or examination of all major policies, programs, activities, expenditures, and supporting data; adoption and approval is based upon understanding of the broad policies involved. The authority to make outlays under the budget should be included in the appropriation resolution.

4. A good budget depends upon good management and administration; it requires good judgment at all times; it is not a substitute for initiative; it depends upon an efficient organization, careful employment of personnel, a good purchasing program, an adequate maintenance program, care in the use of goods and services, research, a good record and accounting system, standards, and economy and efficiency in all operations.³⁹ Good budgets require good personnel. State supervision, standardized budget forms, and state laws or regulations do not insure good budgets. Unless budgets are made by persons possessing

³⁸ De Young, *op. cit.*, ch. XIV.

³⁹ See Engelhardt and Engelhardt, *op. cit.*, pp. 250 ff.

intelligence, vision, managerial ability, knowledge of all factors involved, and technical preparation and skill, good budgeting will not result.

5. A good budget presumes detailed work programs for each undertaking, showing exactly what is to be done and what services and commodities are to be consumed within each appropriation during the year, showing periodic financial requirements, and reconciling any discrepancies between appropriations, requirements, and income. The budget itself should not be so detailed as to prevent flexibility and initiative in making work programs.⁴⁰

6. A good budget involves continuous publicity to call attention to objectives, services rendered, policies in force, needs not being met, costs, results, and other data essential for continued public support and confidence. The budget document itself should contain all essential information and should be simple, interesting, and widely distributed. Public hearings should be encouraged, rather than discouraged. The public should know for what it is spending its money.

7. A good budget implies that the legislative body will hold the executive responsible for performance under the budget, through reports, audits, and other means.

SUMMARY

Educational administration involves finance more than what generally is classified as business management in a school system. Since most of the personnel employed and the materials used are for educational operations, the greatest potentialities for waste and economy are to be found in school management itself. On the other hand, an independent business administration can hamper the educational program; so financial management should be made subordinate to school administration. The superintendent should have the services of specialists in personnel management, purchasing, plant operation and maintenance, accounting, and other aspects of finance. The finance personnel should have a staff status in the organization. The organization itself should provide for democratic participation in the determination of means to carry out

⁴⁰ See Buck, *Public Budgeting*, pp. 456 ff.

the purposes of the school, but responsibility for operations should be clearly defined and allocated.

Economy and efficiency in school management require a positive approach with attention centered upon (1) purposes to be achieved, (2) removal of the causes of wasteful use of personnel and materials, (3) morale and coöperation of staff, (4) improved management and operations, (5) effects of savings upon future outlays, (6) sound economics, (7) institutional adaptability, and (8) effective safeguards.

The budget is the most useful tool of financial administration. It is a well-conceived program of action based upon the function of the schools with sound plans for expending funds and raising revenues. The budget requires continuous appraisal, planning, and study. The budget should deal not only with the program being offered, but also with the program that should be offered.

The budget has as its primary function the outlining of the program contemplated and its financial implications. It also serves as a guide in the financial management of the schools and as a means for improving administration and operations. The important steps in the budgetary process are (1) preparation, (2) presentation and adoption, (3) administration, and (4) appraisal. The budget document should be planned and designed to secure understanding, to support recommendations, and to raise consumer standards in education. The budget upon adoption should be so administered as not to stifle initiative and flexibility.

READINGS

American Association of School Administrators (2), ch. XV; Buck (9 and 10); Campbell (15); De Young (43); Engelhardt and Engelhardt (61), chs. I-V and XXII; Flocken (64); Grace and Moe (73), ch. VIII; Holmstedt (85); Kilpatrick (91 and 92); Linn (95), chs. II, IV, and VII; Moehlman (103), chs. III-IV, XI, and XVI-XIX; Morrison (108), ch. XX; Mort and Reusser (118), chs. II, VI, and VII; National Survey of School Finance (135), chs. VII and XI; Pittenger (149), chs. II-III; Rainey (150), ch. VI; Reeder (153), chs. I-II, and IV; Reusser and Hamilton (154); Simpson (159); Smith (163), chs. II, and IV-V; Twente (178), Womrath (184), ch. XIII.

CHAPTER XVII

Management of Income and Indebtedness

The collection and custody of billions of dollars of income annually represents a tremendous responsibility for public school management. Only by coördinating the revenue program with the expenditure requirements can the possibility of loss be reduced.¹ When the flow of income is geared to monthly expenditure requirements, balances are reduced, the cost of protecting funds is decreased, and borrowing for current expenditures is kept at a minimum. Modern tax-collection methods make it much easier to attain this ideal. Payroll deductions, consumer spending taxes, and quarterly payments of other taxes rather than annual lump-sum payments simplify income management. Nevertheless, before schools can take full advantage of modern tax-collection methods, management must coöperate with others to secure a sound revenue program and obtain other legal changes essential for efficient and economical management of income. Where the school system has special funds that must be invested and protected, additional responsibilities are involved.

The management of income is not limited to revenue receipts. It also includes nonrevenue receipts such as borrowings and receipts from sales, revolving fund receipts, and advancements. Since most income is derived from local taxation or state assistance, primary emphasis must be placed upon these.²

¹ N. L. Engelhardt and Fred Engelhardt, *Public School Business Administration* (1927), ch. XV, and C. A. De Young, *Budgeting in Public Schools* (1936), ch. XI.

² A. D. Simpson and Others, in American Association of School Administrators, *Schools in Small Communities* (1939), ch. XVII.

THE REVENUE SYSTEM

Income management generally presumes the existing legal framework for financing schools from local and central sources. It is true that good management of existing income makes it easier to obtain a more adequate revenue system; but an improved revenue system cannot be attained easily. Obtaining it requires the coöperative effort of laymen and management everywhere in the state and the nation. The most difficult problem of management is the securing of sufficient income for operations.

The reforms required to rehabilitate the property tax as a source of school revenues, particularly as to assessments, exemptions, limits, and administration, are summarized in Chapter VI. The potentialities of local nonproperty taxes are discussed in Chapter VII. Fiscal policies and methods for bringing the advantages of centrally collected taxes to locally operated school systems are taken up in Chapters VIII-IX and in Part III. It remains to discover how local management can help secure a revenue system that has reasonable stability and sufficient flexibility to adjust to changes in monetary values. Unless revenues can be adjusted to changed levels of income or prices, the quantity and quality of education provided fluctuates with economic conditions. School systems with meager resources cannot maintain a defensible minimum of services without support from central governments. Without central support such schools suffer severe hardships during both deflation and inflation.

DEPENDENCE ON BUDGET

The budgetary process provides the best means for local management to bring about the fiscal reforms basic to a sound revenue system. Through the budget management can call attention to deficiencies in the local educational program, the reasons for the shortcomings, and the fiscal and legal changes essential to bring about improvement. Some of these, such as structural reorganization and local administrative reforms, will not require additional revenues. Economies enable management to do more with existing revenues, but where additional revenues are needed, the budget can be used to show how the citizens

can best obtain them through their local or central agencies of government.

The budget is the only means for determining with any degree of accuracy the amount of money required to operate the public schools for any year. The budget can respond to changes in service requirements, standards and provisions, the school population to be served, salary and wage levels, and price levels. No state aid formulas can measure all of these factors for all communities in a state; state aid formulas are more or less complicated, crude devices for approximating school district revenue requirements where budgetary authority is retained by the local units.

Unfortunately, most school budgets are conceived in terms of the estimated amount of federal and state support accruing under existing laws with other expenditure requirements trimmed to the amount of property tax revenues to be expected under existing administrative practices, laws, tax limits, fiscal dependence, high total overall rates, or political resistance. Consequently, the amount of money required to operate the schools in any one school system or in any one state for any year is never known.

Failure of budgets to reflect the true expenditure requirements of school systems means that any revision of state aid formulas usually underestimates expenditure requirements. The formulas used are based upon average practice in the past. The result is that most state finance laws are decades behind in their approximations of public school revenue needs.

COÖPERATION AMONG SCHOOL SYSTEMS

Suppose that every school district in every state were to prepare a budget that left existing services as they are but provided for a minimum salary schedule high enough to enable school districts to secure qualified personnel. It would become obvious at once that the local property tax in many school districts could not support the budget.

Suppose that every school district in every state, in addition to budgeting for adequate professional salaries, were to budget for certain uniform minimums in regard to compulsory education, length of term, class size, levels of schooling, holding power, qualifications for

personnel and services to be provided. Would the American public be satisfied with existing local taxing powers, state support, or federal assistance?

Such budget data compiled for whole states and the whole nation would tell a story that has never been told. Management has been asking for more money, but it is not telling for what it is sought.

Realists will reply that a school system must make a budget in terms of its taxing power and existing state aid laws. That is true for part of the budget and for the current year; but such a budget can be supplemented by a statement of present and future needs. How can increased local taxing powers and adequate central support be attained unless the shortcomings of the existing laws are made public every year through the budget?

COLLECTION OF INCOME

Management should know its monthly demands for income to meet expenditures. This requires estimates of monthly expenditures based upon the budget and past experience. It requires monthly estimates of balances or reserves. Such records will show the months in which large balances can be expected and the months in which borrowing becomes necessary. Although certain expenditures can be timed with revenues, most expenditures are for payrolls which must be met at least monthly and the revenue system must be geared to these expenditures.

In most school systems the correlation between flow of income and expenditure demands will be found very imperfect for many reasons. Most revenues come either from local taxation or state assistance. Most school systems must depend upon other units of government for collection of local taxes. Local tax-collection dates are set by law. State-support payments are made according to a fixed schedule for all districts although some depend almost entirely upon the state for revenues. State support is not always predictable in amount or paid when due.

Failure to collect all money accruing to a school system at the lowest possible cost is just as serious as wasteful spending. It means heavier taxes, more borrowing, curtailment of program, or a loss of confidence

in the management of schools. Yet there are school systems that have failed to receive taxes levied, appropriations, interest on deposits, penalties for delinquent taxes, tuition earned, federal and state aids, shared taxes, interest on sinking funds and investments, insurance rebates, and other monies due or accruing. Monies accruing to schools have been kept by other units of government, private institutions, or individuals.³ The collection of all income not only requires businesslike collection procedures, but also proper auditing, accounting, and reporting. Accounting and audits must establish the true income of a school system before the full significance of disbursement data can be discovered.

LOCAL TAXES

Local school tax levies on property generally are determined by school authorities, but the administration and collection of the tax usually is the responsibility of other units of government—county, city, or town. In the fiscally dependent school systems of New England and certain other states the levy itself is determined by the town, city, or county. Under both systems school authorities assume little responsibility for taking steps to obtain all revenues accruing to the school systems. On the other hand, in certain states like Arizona, Connecticut, Delaware, New York, Pennsylvania, Texas, and Vermont some or all school districts are responsible for collecting their own taxes. Only in Arizona, South Carolina, and Texas do they have any responsibility for assessments. In New York some districts have power to modify town assessments, but this is seldom done.⁴

Lack of legal responsibility for local tax administration and collection does not relieve management from obtaining all local tax revenues due the school system. Management should know the legal provisions for local taxation—property and nonproperty. It should compile data on assessment, exemptions, collection trends, and costs of collection. Assessment rolls, tax lists, and exemptions should be studied. Management should cooperate to improve local tax administration. Assessments should be checked to see that property is not escaping

³ H. H. Linn, *Safeguarding School Funds* (1929), ch. II.

⁴ See ch. VI.

taxation and that it is equitably assessed. Collection procedures should be checked to see that tax delinquency is reduced. All tax monies accruing from other units of government should be collected when due.

Management should strive to improve local tax laws, especially those relating to collection. Tax collectors should be appointed and paid a salary. The fee system of collecting property taxes should be abolished. Annual collections in one payment increase the cost to the taxpayer. The money is collected before it is needed and the taxpayer loses the use of it. It makes payment difficult for some taxpayers and increases delinquency. Provisions should be made for paying penalties to the taxing unit rather than the tax collector. A large unit of government like the county should be made responsible for collecting taxes and making good delinquent school taxes before the end of the fiscal year, as in New York State.⁵

Where school districts have legal responsibility for tax collection greater control of income is possible, but such school districts generally have not exercised such control. Although assessment should be allocated to a larger unit of government, existing power to examine assessment rolls and include property not assessed should be exercised. Extension of this power to all school systems should be sought. Tax bill should be checked against assessment rolls. Receipts of the school tax collector should be compared with amounts turned over to the treasury. Tax collectors should be bonded for the largest amount in their hands at any one time. They should be required daily to deposit monies collected in the depository to reduce the risk of loss. Penalties on delinquent taxes should be paid to the school district rather than the tax collector. Collection dates should be modified to correspond with expenditure demands. Collection of delinquent taxes should be allocated to a larger unit. School districts have not been particularly successful in these matters.⁶ Furthermore, school districts are not able to collect taxes as cheaply as larger units.⁷ Most school districts are not large enough for effective and economical tax administration and should relinquish this responsibility.⁸

⁵ Eugene C. Wilkins, *Public School Tax Management in Texas* (1937).

⁶ *Ibid.*

⁷ Engelhardt and Engelhardt, *op. cit.*, p. 316.

⁸ See ch. VI.

Where schools are entitled to a share of property or nonproperty town, city, or county taxes, or where the school district can levy nonproperty taxes to supplement property taxes as in Pennsylvania, collection dates should be coordinated with property tax collection dates. Obtaining local tax-collection dates suited to the expenditure program simplifies the custody of public funds, reduces costs to the taxpayer, and reduces the need for borrowing. Legal safeguards should be established so that school districts can enforce payment on the due dates of monies accruing from other tax collection agencies.

FEDERAL AND STATE REVENUES

Management should be informed on all laws and regulations relating to federal or state financial assistance. Management should see that the school system receives all funds to which it is entitled from these sources. Applications and data submitted for such assistance should be checked carefully. Any errors in apportionment should be detected and called to the attention of the apportioning agency. All legal requirements or compliance features of federal or state aids should be adhered to in order to avoid penalties or loss of aid. Where the requirements are objectionable, the remedy lies in securing legal changes.

The payment of state aid to school districts seldom is coordinated with the local expenditure program or tax collection dates. Some funds are apportioned annually. Although apportionments are made more frequently in many states, the payment dates usually are the same for all school districts. In districts relying upon local taxes for most of their school revenues, frequent payments only increase balances. In these districts one or two payments at the low point in local tax revenues is all that is necessary. However, in districts relying upon federal and state funds for most of their revenues, frequent payments are essential. Management should cooperate to secure better coordination of these dates with local tax-collection dates and local expenditure requirements.

One of the major problems of income management is the fact that state funds sometimes are not predictable in advance and are not paid when due. Legal changes should be sought to make state aid predicta-

ble upon objective measures.⁹ It can be made easy for a local school system to estimate its state support in advance. Payment of funds when due often requires administrative reforms on the state level—either in the state revenue system or the staffing of the apportioning agency. Local school systems can facilitate prompt payment by supplying all data for apportionment on time or ahead of time.

OTHER INCOME

One of the common nontax sources of income is nonresident tuition. Collection of all income accruing from this source requires accurate records of the legal residence of all pupils. All districts or parents liable for nonresident tuition should be billed at time of registration. Where payments are not made on the due dates, a follow-up should be made. Except where legal barriers exist as they have in certain states like Michigan, Nebraska, and North Dakota, tuition charges should equal the unit cost of instruction, including capital outlays and debt service. Statutes which prohibit charging the full amount should be modified.¹⁰

For a number of years it has been impossible to get interest on demand deposits, but reserves and contingency funds can be transferred to time deposits. Any balance in demand deposits which will not be used for three months or more can be transferred to an interest account. Some states have made it compulsory for banks to pay interest on balances in school funds.¹¹ When banking conditions permit, this policy should be extended to all states.

It is wasteful not to sell, lease, or rent public school property not being used. All offers to sell, lease, or rent should be widely advertised and subject to bid, except where the amount involved is too small to justify the cost. Sales and leases should be checked for legality. Monies received should be promptly turned over to the treasury. Rentals should be placed upon a businesslike basis. The rentals should cover the costs incurred and allow for depreciation.

Management should take steps to see that the system receives all monies due from insurance rebates, insurance adjustments, fines, ad-

⁹ See chs. XII–XIII.

¹⁰ H. H. Linn, *Practical School Economics* (1934), p. 104.

¹¹ D. S. Young, *Control of Available School Income* (1928).

missions, sales, refunds, or adjustments from other transactions. Here should be included revolving funds (cafeterias, stores, and services) and so-called student activity funds.

CUSTODY OF FUNDS

After all monies are collected, the administrative problem becomes that of protecting them from loss. There must be safeguards against individual dishonesty, carelessness, or mismanagement. Depositories must be carefully selected and provisions made for the security of funds in the depository.

BONDING OFFICIALS

All officials collecting or having custody of school funds, supplies, or movable equipment should be bonded—including tax collectors, treasurers, bookkeepers, auditors, business officials, or any other person collecting monies, making payments, making financial transactions, handling property, or keeping fiscal or property records. State laws on bonding officials should be enforced.

A surety bond for school officials not only insures the honesty of the person, but also calls upon the surety to make good losses resulting from ignorance, negligence, carelessness, burglary, fire, and sometimes bank failure.¹² In this respect it is quite different from the ordinary fidelity bond covering dishonesty only. Yet many of the surety bonds provided for public officials cover "honesty" only. Hence, the best practice is to require by statute the type of bond to be provided for public officials. Bonds should be checked to see that they provide the security required by law and are not restricted in their liability. Certain employees can be covered by a blanket bond.

Although state laws sometimes permit personal bonds, corporate surety bonds are superior. Personal responsibility may be difficult to enforce through change in financial status of the surety, death, lack of liquid assets, lack of sufficient assets, or undue hardship. Persons who are not competent to handle money may be able to obtain personal sureties through friendship. Corporate surety bonds of reliable companies, supervised by state agencies, provide greater financial protec-

¹² H. H. Linn, *Safeguarding School Funds*, *op. cit.*, p. 23.

tion. The companies investigate the risk and follow up those who default. Where the person bonded cannot be held legally responsible for losses or where the amount of risk involved is very small, the personal bond has the advantage of lower cost. The personal bond also may be preferable where the bond required by law is far in excess of the risk. Even in these cases, it is a good policy to require the personal sureties to obtain corporate reindemnifying bonds.¹³

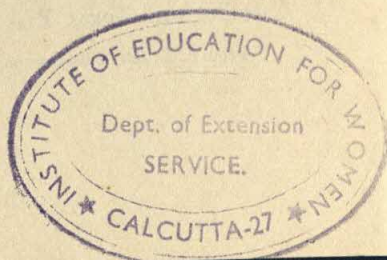
The primary responsibility of management is to reduce the risk and the expense for bonds, because the cost of bonding is relatively high compared to the losses actually incurred by school systems. Since tax collectors present the greatest hazard, handling cash and issuing their own receipts, this office might be abolished in school districts. In larger tax units, payments for taxes might be made payable to the treasury with receipts issued by the tax agency. Thus one agency's records would serve as a check on the other. Management of collection procedures in order to have funds coming in more frequently in smaller amounts reduces risk. Making the depository the treasurer of the district reduces the number of persons handling funds. Maintenance of safeguards, a good accounting system, and careful audits reduce risks. The amount of the bonds required should be regulated to the risk involved. It is not necessary to have persons bonded for the maximum amount handled where adequate safeguards are provided. Where rates for corporate surety bonds cannot be made reasonable in terms of the risk, it is possible for a state to create a bonding fund for public officials similar to the fund of North Dakota in operation since 1918. The rates have been much lower than commercial rates.¹⁴

OTHER SAFEGUARDS

Bonding has little value unless losses are discovered through auditing, accounting, and reporting. Large losses generally result from small defalcations extended over a long period of time. Procedures should be set up for the issuance of serially numbered receipts for all funds received. These should be made out in triplicate—one for the debtor, one for the accounting officer, and one for the files. Bills should

¹³ *Ibid.*, ch. III.

¹⁴ *Ibid.*, pp. 45-47.



be made out in duplicate, one going to the debtor and the other to the accounting officer. Funds should be deposited the day they are received and reported to the accounting officer. No funds should be deposited except in the legally designated depository. Disbursements should be made only on proper authorization. Checks and balances should be maintained—countersigned checks, bank balances compared with treasurer's statements, duplicate receipts and bank deposits, separate and independent accounts of receipts and disbursements, separate and independent reports. Persons receiving funds should not be authorized to make expenditures. Persons receiving funds or making disbursements should not keep the accounts. Monthly reports and reconciliations with occasional spot audits of monies accruing, monies collected, and monies deposited aid management in discovering trouble. Auditing, accounting, and reporting in themselves discourage carelessness.

THE TREASURY

The various states provide for a variety of custodians of school funds—the tax collector, a member of the school board, the clerk of the board, an independent school district treasurer, the depository, the treasury of a larger unit of government, or some county official. Nor has practice changed much for over a half century except for a decrease in the school board treasurer and a slight increase in the clerk-treasurer, depository as treasurer, and the using of the treasury of a larger unit of government.¹⁵

From the viewpoint of economy in operation and reduction in borrowing, the treasury of a large unit of government has the advantage. Duplicating services can be eliminated. Machines can be used economically. Trained personnel can be employed. Balances in one fund can be used to avoid borrowing in another. All that is required by school management is the periodic statements and reports required.

As long as school districts maintain separate treasuries the best arrangement is designating the depository as treasurer, a practice that has been in operation for a long time in Florida, Mississippi, North Carolina, and Texas. Risk of loss is reduced by eliminatng the treas-

¹⁵ Fred F. Beach, *The Custody of School Funds* (1933), pp. 8 ff.

urer. Monies from tax collections, county or state sources, and operating units are paid directly to the depository. The school system receives the benefit of trained personnel. Management can obtain the statements and reports required for fiscal control.

THE DEPOSITORY

The selection of depositories for school funds today depends primarily upon security and service. Security implies that individuals never should have personal custody of school funds—district or internal. Banks should be selected in terms of their financial standing and record of service. The accepted procedure has been to select depositories by bid in terms of interest paid, weighing security and service above rate of interest. Under present banking conditions this procedure is not practicable. Nevertheless, this does not justify the practice of selecting depositories in terms of local interest, personal contacts, or political influences. Strength of the bank is the primary consideration.¹⁶

The general rule is that the amount of funds to be placed in any one bank should be relative to its capital. Some states, such as California, provide that deposits shall not exceed paid-up capital. Pennsylvania has put a one-third limit applied to both capital and surplus. Linn proposes a 50 percent limit.¹⁷ Small-town banks dependent upon a single industry have a worse record of failures than larger metropolitan banks dependent upon diversified resources. National banks and members of the Federal Reserve System have had a better record than others. However, the economic basis of their activities and competence of management probably are the major factors, although supervision cannot be ignored. Generally, capital of at least \$50,000 should be a minimum requirement.¹⁸

The kind of bank selected depends upon the security that can be obtained. A corporate depository bond or collateral covering the amount on hand at any one time sometimes can be obtained, depending upon state laws. National banks no longer can furnish depository

¹⁶ M. L. Faust, *The Security of Public Deposits* (Public Administration Service, 1936).

¹⁷ See Linn, *op. cit.*, p. 99.

¹⁸ *Ibid.*, pp. 78 ff.

security unless authorized to do so by state law. At least half the states have had provisions for securing public school funds in banks.¹⁹ Although personal bonds are permitted in most of these states, all of them permit corporate surety bonds (depository bonds). Because depository bonds will not be issued without investigation of the status of the bank, they provide a double check. Others permit the furnishing of collateral as security for the deposits. Under the Federal Deposit Insurance Law deposits up to \$5000 are insured. So in the absence of proper security under state law it would seem advisable to divide deposits among several banks.

The tendency today is to question the policy of requiring banks to offer security for public deposits. It is held that offering such security, especially in the form of collateral, weakens the security of private depositors. Therefore, the best policy for management is to obtain revenues in smaller, more frequent payments, to have more than one depository, and to use extreme care in selecting depositories. Another possible development is the state sinking fund for public deposits. Iowa has experimented with a plan under which funds lost through insolvent banks are paid. Management should recommend depositories of school funds in terms of strength and safety, but the laws of some states prevent this. In Arkansas the selection has been made by the County Court. In Montana the County Board of Commissioners has done the designating. In West Virginia it has been the County Sheriff. Such laws should be modified, enabling the school board, upon the recommendation of management, to designate its depositories.²⁰ Generally where the treasurer cannot select his own depository he cannot be held responsible for losses due to bank failures, but this should not deter management from carefully selecting the depository. The prudent policy is to avoid loss insofar as possible. It is questionable if schools could, or should, hold a treasurer responsible for losses resulting from bank failure.

Another obstacle to selection of a strong depository is the legal requirement that the banks selected must be local. California has been one of the few states giving local management the necessary freedom.

¹⁹ *Ibid.*, p. 104.

²⁰ *Ibid.*, p. 90.

If the local requirement is to be retained, it should cover the region, although the county and adjoining counties might be sufficient in most cases. Service requires proximity, but this should not be placed ahead of security.

HANDLING FUNDS AND INVESTMENTS

A fund is "a sum of money required to be set aside specifically by law, legislative action, city ordinance, or school board action, the sources of income of which are determined and the expenditures of principal or income restricted by regulations."²¹

Either through state law or local action certain school systems maintain a number of separate funds, classified under such titles as general, special, building, reserve, contingency, revolving, insurance, elementary, high school, contingent or emergency, maintenance, interim, sinking, bond, retirement or pension, temporary loan, scholarship, or trust. Many of such funds have their own sources of receipts and their expenditure is limited or regulated. Sometimes transfers among various funds are prohibited or restricted.

REDUCING THE NUMBER OF FUNDS

The maintenance of a number of special funds increases the cost of management and complicates auditing, accounting, and reporting. The cost of clerical assistance is increased. Balances exist in one or more funds while borrowing must be resorted to in another fund or funds. The regulation of income to expenditure requirements is made difficult. The chances of loss are increased.

Where no legal restrictions exist, management should combine all school district income for current outlays, including money for payment of principal and interest on indebtedness, into one general fund. Allocation of revenues to all budgeted expenditures can be controlled through accounting and reporting. A single fund reduces the necessity for borrowing. It enables management to keep balances at a minimum, thereby reducing risk of loss and the cost of protection. Transfers within a single fund are easier to manage than interfund

²¹ Engelhardt and Engelhardt, *op. cit.*, p. 234.

transfers. Where legal barriers to such a general fund exist, management should strive to have them removed.

Certain funds cannot be eliminated. (1) Capital or building funds, especially those financed from bond issues, must be maintained until the funds are expended. In large school systems with continuous building and rebuilding, this fund may have to be maintained at all times. (2) Revolving funds and student activity funds require separate management. In the first case, the fund must be self-supporting; in the second, the revenues are not school district funds, but belong to the student bodies in various schools. (3) Trust funds or endowments given the school district must be managed according to the conditions of the gift. Transfers from such funds should be fully safeguarded by state law and local regulations. Such transfers should be avoided.

CUSTODY AND INVESTMENT OF TRUST FUNDS

In addition to endowments, funds such as those for pensions, buildings, or payment of bonds require investment. The handling and investment of such funds or endowments by school systems should be regulated by state laws and supervised by state banking departments. Existing laws generally are very weak relative to school investments. Management should assist in obtaining these legal safeguards where they do not exist. When the size of the funds justifies it, expert financial and legal counsel should be retained.²²

The security of trust funds or endowments is more important than rate of return. Federal bonds, notes, and certificates of indebtedness provide the highest degree of security. State obligations rank high. The obligations of cities, school districts, and other units of government come third, depending upon the credit status of the unit. Securities should be protected by a "custody of securities" account in a bank or renting a safe deposit box the contents of which are insured against loss and by bonding persons responsible for handling securities. Annual reports should be provided on the status of the funds.²³

²² C. F. Dienst, *The Administration of Endowments with Special Reference to the Public Schools and Institutional Trusts of Idaho* (1933).

²³ Linn, *op. cit.*, pp. 49 ff.

RESERVE FUNDS

The fact that the flow of income is not coördinated with expenditures has caused some school systems to create reserve funds to avoid short-term borrowing during periods when income is not sufficient to meet payrolls and other bills. State laws vary on the creation of reserves, yet restrictions on borrowing often make them necessary. Sometimes the reserve is limited to a certain percentage of the budget. It is distinguished from an ordinary balance in that it is planned to meet a certain contingency. It may be referred to an interim or interim reserve fund.

There has been a tendency to condemn such reserve funds because of the danger of loss, the danger of lax budgeting and budgetary control, and expense to the taxpayer.²⁴ With good management and budgeting, however, reserve funds may be used under certain conditions. First, the funds must be kept at the minimum which is essential to avoid frequent borrowing. Second, the annual savings in interest on borrowed funds plus the annual earnings on the funds must be greater than what the taxpayers could earn on the money at prevailing rates of interest. Legal provisions as to the amount or reappropriation should be complied with.

DEBT AVOIDANCE

Debt service, long-term debt in particular, often represents one of the greatest wastes in public finance. Payment of high interest rates on a debt for a plant which could be replaced at half its original cost, when money can be borrowed at half the original rate, is not uncommon. Not only is this itself a wasteful use of public funds, but it often increases the amount of waste in other expenditures by forcing unwise reductions in the quality of personnel and materials used and by forcing postponement of maintenance and other unwise curtailments in the operation, care, and protection of property.

The management of debt service involves many fortuitous factors, because it depends upon forecasts of future developments. The only

²⁴ Frank C. Ketler, *Reserve Funds in Public School Finance* (1931).

safe policy is to avoid the creation of debt through the "pay-as-you-go" policy. Short-term borrowing can be avoided through seeking reforms which will spread tax and state aid payments over the entire fiscal year. Much long-term borrowing can be avoided by careful planning and management of capital outlays. Every possible adjustment should be tried before capital improvements are made.²⁵

Another danger in borrowing is its inflationary impact. Of course, the creation of indebtedness by a single school system has very little effect upon prices, but the aggregate of local borrowing can contribute to inflation. Unfortunately, local government, including school systems, has tended to do its borrowing during boom periods when borrowing should be avoided. The same has been true of state governments. On the other hand, during depressions the borrowing of state and local governments is reduced or is restricted by decreased property valuations or fiscal difficulties. At the very time that public borrowing might have a counter deflationary influence it is curtailed.

There are four ways to avoid long-term indebtedness: (1) careful planning, (2) adopting the pay-as-you-go policy, (3) creating building reserve funds, or (4) using a combination of the last two.

CAREFUL PLANNING

It is regrettable that some borrowing for the school plant has been unnecessary because the plant itself was not needed. Planning might have avoided some of these mistakes; others might have been impossible to anticipate. Certainly future planning can avoid the same mistakes. (1) Cities must allow for increased migration to suburbs in planning. (2) Suburbs must recognize the fact that homes now owned by young couples may not maintain the present pupil population for two decades. (3) Rural areas must plan buildings in terms of probable district reorganization. Where any factors such as these indicate a temporary need for school housing, one or more of the following policies should be pursued: (1) transportation, (2) contracting, (3) renting temporary quarters, (4) erecting temporary quarters, (5) erecting buildings by units with primary concern for economy, utility, and adaptability for other uses as has been done in Seattle.

²⁵ A. B. Grace and G. A. Moe, *State Aid and School Costs* (1938), ch. XI.

PAY-AS-YOU-GO

The objective of the pay-as-you-go policy is to finance capital improvement out of current revenues. Small school systems, unless they have very high valuations and relatively low tax rates, under local support alone cannot adopt the policy exclusively except for additions to or alterations of existing plants. Many can finance part of capital improvements out of current revenues, thereby reducing indebtedness and the ultimate cost of the improvements. Any large school system with a taxing margin can make extensive use of pay-as-you-go.

The assumption that small school systems and other systems with limited fiscal capacity cannot have a high degree of pay-as-you-go is based upon the concept that capital outlays must be locally financed. The extension of state support for capital outlays reduces the need for borrowing. It must be further extended along the equalization concept to avoid the high debt-service tax rates and indefensible ratios of debt to assessed valuation that exist in fiscally weak districts.²⁶

One of the reasons more systems have not adopted the pay-as-you-go plan has been the burden of past indebtedness. The curtailment of building for the past decade should make it much easier to make the transition. Municipal and school indebtedness has been reduced greatly in recent years. Ordinarily, this reduction would mean greater taxing margin, but high prices have pushed current expense tax rates upward. Only a substantial upward adjustment of assessed valuation to the new price level will provide the tax leeway needed for undertaking capital outlays from current property taxes. The spread of local non-property taxes should provide a new reserve of taxing power to make the policy possible.

It is much easier for local units of government to follow a pay-as-you-go policy during a period of rising prices, rising valuations, and increased returns from nonproperty taxes. In 1946 about a third of the cities over 10,000 in the United States financed all or part of their capital outlays from current revenues.²⁷ In 1947 about a sixth of them planned to finance all capital improvements in this manner and over

²⁶ See ch. XII.

²⁷ *The Municipal Yearbook*, 1947, p. 194 ff.

half planned to finance a major part with current receipts. Only about a fourth planned to resort only to borrowing.²⁸

Where the making of capital outlays is unavoidable during a period of rising prices or high prices, the pay-as-you-go policy is the only prudent method of financing. High prices are met by taxes on high incomes. There is no gambling with the future where it may be necessary to repay indebtedness created by high prices by future taxes on deflated incomes.

The payment of capital outlays out of current revenues promotes economy at any time. The ease with which money can be borrowed often encourages outlays beyond what are required to perform satisfactorily the functions of the schools. The fact that payment out of current revenues usually means heavy tax rates for a few years tends to keep costs down. This requires careful management to avoid inadequate housing or the construction of a plant that may be uneconomical to operate and maintain. Where a satisfactory job cannot be done out of current revenues, a combination of pay-as-you-go and borrowing should be adopted.

One of the drawbacks to the pay-as-you-go plan in the past has been public opposition to the high property tax rates required and the increase in tax delinquency under higher rates.²⁹ Successful property tax administration requires relative stability in rates, because of leases, investments, mortgages, and other contracts entered into on the assumption of a certain tax rate. The development of new sources of revenues for local government should remove these objections.

There has been a tendency to emphasize the savings in interest in advocating pay-as-you-go. This is relative to what the taxpayer could earn on the money and may represent no real saving.³⁰ The real savings in pay-as-you-go is the avoidance of debt during a period of high prices, the reduction in the amount of long-term debt incurred at any time, or the reduction in the term during which interest must be paid.

²⁸ *Ibid.*

²⁹ Don L. Essex, *Bonding Versus Pay-As-You-Go in the Financing of School Buildings* (1931).

³⁰ *Ibid.*

BUILDING RESERVES

The building or capital outlay reserve fund is very similar to a depreciation reserve fund. Both presume that funds will be set aside annually and allowed to earn interest. Both presume the erection, replacement, or remodeling of plant. About the only real difference is that the building fund is broader, including additional buildings as well as replacements of existing structures. The latter usually is limited to financing the improvement or replacement of existing plant. Its objective is to lay aside sufficient funds during the period of probable usefulness of a plant to replace it when it is worn out.

The same objection has been raised to reserve funds as has been raised against the pay-as-you-go policy, namely, that leaving the money in the hands of the taxpayers and then borrowing may cost the taxpayer less than creating a reserve fund.³¹ If only interest is considered, this objection is valid; but if the creation of debt during high prices is considered, the advantage is with reserve funds. The reserve fund like pay-as-you-go is the economical way to finance buildings during periods of high prices, high interest rates, or both. Although experience with reserve funds for buildings has not always been commendable under lax political management and absence of state legal requirements or supervision, there is no reason why a well-managed school system cannot handle reserve as well as a private business.

During the past decade there has been a revival of interest in reserves for capital outlays. In 1938 no state authorized municipalities to create such reserves. Now over half the states have granted such powers to municipalities and some states recently have given this power to school districts.³² About half the states, including New York until 1948, have prohibited sinking funds for schools.³³ The Regents Inquiry in New York State held that pay-as-you-go could not be attained in school districts without provisions for reserves. It recommended that the legal restrictions on reserve funds be repealed. It pro-

³¹ Ketler, *op. cit.*, pp. 23 ff.

³² W. S. Parker, "In Good Times Plan for Bad," *National Municipal Review*, XXXVII (Jan., 1948), pp. 13-15.

³³ P. R. Mort and W. C. Reusser, *Public School Finance* (1941), p. 355.

posed that legislation be enacted to prevent the diversion of reserve funds for capital outlays to current expenditures or tax reduction. It was proposed that such funds be subject to state supervision with specific requirements relative to investments. No district would be permitted to create such a fund without approval in advance by the state agency.³⁴

There is ample evidence that school systems and municipalities can manage reserves successfully. In spite of legal barriers some well-managed city school systems have created and managed reserves for many years in New York State. Milwaukee has maintained building reserves for a quarter of a century. Many Wisconsin cities have achieved a debt-free status.³⁵

BORROWING

SHORT-TERM BORROWING

Temporary borrowing charges usually represent a very small percentage of school expenditures, but two facts cannot be ignored. First, that the interest charged on short-term loans is many times the interest paid on school deposits. Second, every cent spent on interest is money not available for carrying on the work of the schools.

Where temporary borrowing cannot be avoided, certain principles apply. If possible, banks should bid for the business on the basis of interest rate charged. Borrowing should be restricted to the amount of revenues accruing to the system. The loans should be repaid immediately on receipt of the revenues. Temporary loans should not be repaid by additional borrowing. Loans necessary to meet unavoidable deficits at the end of the fiscal year should be repaid out of the next tax levy. An additional levy should be made to repay the loans. Budgetary and income management should be overhauled when borrowing for current expenses becomes an annual practice. State laws should be amended to restrain temporary borrowing. Unrestricted borrowing for current expenses encourages extravagance and carelessness. States should regulate the maximum rate of interest charged on well-secured

³⁴ Grace and Moe, *op. cit.*, p. 389.

³⁵ Public Administration Clearing House, Release No. 5, May 24, 1946.

temporary loans for schools. Another possibility is for schools to do their temporary borrowing through a state agency at low rates of interest as is done in Alabama. States should be authorized to advance state aid to districts in hardship cases.³⁶

LONG-TERM DEBT

Where it is absolutely necessary to incur long-term debt obligations, there are no certain ways of guaranteeing economy. The trends in the price level and construction costs should be studied over a long period of time. Obviously buildings should be erected when prices are low or interest rates low. However, there usually is a long interval between periods of low building costs. States ordinarily can obtain lower interest rates than small units of government and states can create revolving funds which can be loaned to smaller units at reasonable rates of interest.

Long-term debt should be contracted only for improvements having a relatively long period of probable usefulness. It never should be used to pay indebtedness incurred for current expenditures. Long-term borrowing enables school districts to build during a period of low building costs and such borrowing taken in the aggregate has a counter-deflationary effect. Where a necessity for capital improvements exists, long-term borrowing under such conditions is a sound fiscal policy. The community gets the advantage of low initial costs, a relatively stable tax rate, and tax leeway for current expenses during hard times. Although it may not be as defensible during high prices, a certain amount of long-term borrowing may be unavoidable. Population shifts, an upsurge in the birth rate, or loss of property may force a school system to borrow for capital outlays even during periods of high prices. Insofar as possible, however, such financing should be handled through immediate tax increases, short-term borrowing paid out of higher taxes the succeeding year, and short-term bonds requiring higher taxes during the inflationary period itself. Early amortization of debt is a prime objective in management at all times. It is difficult during a period of low prices and low incomes to pay back debts contracted during a period of high prices. Long-term debt should be sup-

³⁶ Grace and Moe, *op. cit.*, p. 391.

plemental and kept at a minimum during inflation. Borrowed money should be expended as economically as possible. In all long-term borrowing, consideration must be given not only to the cost of debt service, but also to the effects of the capital outlays on operating expenditures.

The most common method of creating long-term indebtedness is the issuance of bonds. A bond is a legal instrument or contract in which a corporate body promises to pay within a certain time the amount borrowed with interest at some fixed rate payable at certain stated intervals.³⁷ Bonds may be classified as callable, straight-term, serial, and sinking-fund. They may be further classified as "coupon" or "registered." Each has its advantages under certain conditions and disadvantages under certain other conditions.

The callable bond ordinarily involves a higher interest rate, but the issuer has the option of refunding at any time or at specified times. Hence, it is most appropriate for debts incurred during a period of high interest rates or high prices. It may be advantageous to a locality that anticipates (1) greatly increased valuation, (2) lower operating costs, or (3) other developments which may enable it to substantially reduce its indebtedness within a reasonable period of time. The higher rate of interest must be weighed against the potential savings through refunding.

The straight-term bond represents the opposite extreme. Under this type of bond the entire principal becomes due at a specified date. Many of the older school-bonds were of this type with most of the advantages accruing to the lender. Under this kind of bond the school district pays the maximum amount of interest since the interest is always payable on the entire principal. Many of these bonds were sold at high interest rates for long periods. They place a tremendous financial burden on the unit of government when they become due. As a result such debts often have to be paid through new borrowing, a very unsound practice. The debt may exist long after the original capital outlays has lost its usefulness and the cost placed upon future generations may be many times the original cost of the plant. The straight-term bond has little advantage for the borrower.

³⁷ J. G. Fowlkes, *School Bonds* (1924), p. 24.

The serial-type bond reduces the interest cost by providing for the regular repayment of installments on the principal. It is flexible enough to provide for various local conditions. Installments may be increased as interest charges are reduced to provide a stable tax rate for debt service. Large installments can be provided during the first years or postponed where there is any justifiable reason for doing so. Repayment in equal installments can be made if desirable. Repayment plans can be adjusted to payments due on indebtedness already incurred. In any case, at the end of a certain period the entire debt is liquidated according to a systematic plan. The schedule of repayment should be planned in terms of existing obligations, future obligations, and all factors affecting fiscal capacity and expenditure requirements. In planning amortization, short-term borrowing to meet payments of principal should be avoided.

Serial bonds are most advantageous for small districts, fiscally weak districts, or districts operating under a limited tax rate where stability in tax rate is essential. They are advantageous to any district borrowing during a period of low building costs or low interest rates. They have the same disadvantage as straight-term bonds during a period of high prices or high interest rates except that the total cost of interest is not so high. About half the states require school districts to issue serial bonds,³⁸ but this is an unnecessarily restrictive policy. It would be much more desirable to have local bond issues approved by a state agency with flexibility to issue the type of bonds appropriate to the conditions existing in various types of districts.

The sinking-fund type of bond provides a systematic method for laying aside the funds to meet a long-term bond issue. Theoretically, it has the advantages of the serial-type bond with a little more flexibility. However, unless the interest rate earned exceeds the interest rate paid it is more expensive than serial bonds. Sinking-fund bonds involve more risk in that the funds must be invested and protected. School authorities may fail to lay the funds aside according to plan. Yet a prudent board can place larger amounts in the fund when balances occur or tax leeway exists. It is not subject to the inflexible contract provisions of serial bonds, but only with competent management and

³⁸ Mort and Reusser, *op. cit.*, p. 360.

adequate legal safeguards does such flexibility have any advantage. As previously mentioned, sinking funds now are not allowed in many states.³⁹

The distinction between coupon bonds and registered bonds lies in negotiability. Coupon bonds do not show the name of the owner and interest is payable on surrender of the coupon. Registered bonds are issued in the name of the owner or purchaser. Interest is payable only to this person or firm. Transfer of ownership is made only in the home office of the company issuing them. Bonds may be registered as to both principal and interest, principal, or interest. Sometimes the purchaser is given the option of either coupon or registered bonds.⁴⁰

SALE OF BONDS

Bonds should mature in the shortest period of time that the fiscal capacity of the local unit will permit. The term should not exceed the probable period of usefulness of the building or improvement. Although this depends largely upon the type of construction, state laws in many states arbitrarily limit the term of bond issues. The most frequent limit is twenty years, but at least a fourth of the states have allowed thirty years. A small number allow longer terms, but thirty years should be the maximum for good construction. Nonfire-resistive buildings call for shorter terms. New York State varies the maximum term from five to thirty years depending upon the type of improvement. Other states like New Jersey and Ohio also have variable limits.⁴¹

Management should have the services of a competent bond attorney before undertaking to sell bonds. The bond attorney should draw up all the necessary resolutions, help prepare the advertisement or notice of sale, advise as to the time of sale, inform management of all legal steps to be taken such as obtaining the approval of the voters, and approve the legality of the issue before sale. This avoids delays arising from errors and often leads to obtaining better interest rates. Satisfactory legal service costs about one dollar per thousand dollars on face value. The attorney should not be authorized to arrange a private sale.

³⁹ See p. 000.

⁴⁰ See H. R. Halsey, *Borrowing Money for Public Schools* (1929).

⁴¹ Mort and Reusser, *op. cit.*, p. 364.

The sound practice is to sell bonds by competitive bid. Private sales or presale agreements with a single bondhouse should be avoided. Only by offering bonds at competitive sale advertised in national financial publications can a school district learn the true worth of its bonds. The bid should be offered to the lowest bidder on interest with due allowance for any premium offered. Before bonds are offered for bid the market should be studied through such publications as the *The Bond Buyer*, *Wall Street Journal*, or *Commercial and Financial Chronicle*. Such publications show such facts as average interest rate of 5.69 in May 1933 dropping to a low of 1.93 in December, 1941. There was a slight upward trend until May, 1942, and then a downward trend culminating in a record low of 1.29 in February, 1946. Since then the trend has been gradually upward.⁴²

The notice of sale or prospectus should contain a concise summary of all data needed by the buyer such as amount of bonds, purpose, place, date, and exact hour bids are to be opened, date of bonds, maturity dates, and option dates if callable, denominations, and options as to registration, basis of bidding, basis of award, compliance features in bidding, deposit required, name of attorney approving, form of proposals, to whom sent, time and place of delivery for bonds, costs assumed by district, provision for payment, tax rate and limitations on debt or taxation, credit standing, and population.⁴³

Bonds should not be sold for less than par value, a practice which is prohibited by law in most states. Others permit it with restrictions. The reason for such restrictions is that they prevent a district from selling more bonds than were authorized or from failing to realize the amount of money anticipated.

STATE ASSISTANCE

Small school systems seldom issue bonds or create new long-term debt. In such districts expert management must be provided by the state education department through supervising long-term debt and approving the amount, term, methods of repayment, and interest charges. State education departments should give special assistance to

⁴² *Daily Bond Buyer's Index*.

⁴³ Simpson and Others, *op. cit.*, pp. 411-413.

heavily indebted districts.⁴⁴ Where states do not provide state aid for capital outlays, programs should be developed which will at least reduce the burden of debt now imposed upon fiscally weak school systems. The states at least can buy the bonds of school districts and give them the advantage of the lower interest rates on state bonds issued to cover them. This is especially advantageous for small districts.

SUMMARY

The revenue and expenditure programs of the schools must be coordinated if borrowing is to be avoided and the safeguarding of funds is to be facilitated. The budgetary process can be utilized to secure the legal reforms essential to attain an adequate revenue system coordinated with expenditure requirements. All monies accruing to the system should be known and collected if possible. This requires knowledge of tax laws, tax administration, and federal and state support programs and requirements, and businesslike methods of collecting other income.

School monies should be protected from loss through proper safeguards, bonding, auditing, accounting, and reporting. The school district treasury or the treasury of a larger unit of government should be the depository. The depository should be carefully selected in terms of security and service. The number of funds should be reduced to a minimum. Funds requiring investment should be handled by experts and be subject to state supervision.

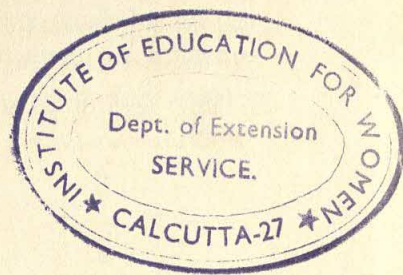
The objective of good management should be to avoid or to reduce borrowing through careful planning, pay-as-you-go, the use of reserve funds, and combinations of the last two. Since states can secure lower interest rates than local units of government, states should participate in the financing of capital outlays as well as current expenditures. During periods of high prices, local units should keep borrowing at the absolute minimum and keep the term as short as possible. Bonds should not be issued for a period longer than the probable usefulness of the improvement. The type of bond to be issued should be governed by conditions existing in the unit of government involved. However,

⁴⁴ Grace and Moe, *op. cit.*, p. 388, and W. B. Castetter, *The Administration of Bond Issues in Selected Pennsylvania School Districts* (1948).

the straight-term bond has practically no advantages as far as schools are concerned. A competent bond attorney should be employed and bonds sold by competitive bid.

READINGS

American Association of School Administrators (2), ch. XVII; Chatters and Hillhouse (17); De Young (43), ch. XI; Engelhardt and Engelhardt (61), chs. XII, XV, XVIII, and XIX; Linn (95), chs. VI and XII; Linn (96); Morrison (108), chs. VIII, IX, and XII; Mort and Reusser (118), chs. IX and XVI; Rainey (150), pp. 55-79 and 184-212; Reeder (153), chs. V and X; Smith (163), ch. XV.



CHAPTER XVIII

Management of Personnel Expenditures¹

Over four-fifths of public school operational expenditures are payments for personal services in administration, instruction, plant operation and maintenance, and auxiliary services. Personnel policies, especially policies affecting salaries and wages and the use made of personnel, are the essence of budgeting and expenditure management. Although certain important aspects of payment for services are subject to direct administrative control, many of the factors determining salary and wage levels are beyond the immediate control of management. Too frequently the quality of services and operational efficiency are allowed to fluctuate according to such external factors. Too little attention is given to the maintenance of quality control through a sustained and coöperative effort to manage factors not subject to immediate control. A narrowly provincial outlook will not solve the personnel problems of the public schools.

PERSONNEL MANAGEMENT

Personnel management should promote the following objectives: (1) attract qualified candidates for positions and discourage the unqualified; (2) hold able, skillful, and successful personnel in the system and eliminate the unfit; (3) provide incentives and means for continued improvement in service; (4) increase efficiency and morale

¹ Based upon ch. XI of A. J. Burke, *Defensible Spending For Public Schools* (1943).

of all personnel; (5) enable professional personnel to acquire a high cultural status for the best possible service; and (6) permit all personnel to acquire social and economic status commensurate with their responsibilities or duties. The quality of public schooling is determined to a considerable extent by the intelligence, energy, enthusiasm, character, educational background, and professional skill of teachers (their total personalities). Good buildings, courses of study, mechanical aids, books, equipment, and supplies contribute very little except as they are used intelligently by personnel. The primary purpose of personnel management, therefore, is to attract and hold persons with the qualifications required for superior service. An equally important objective is to enable such persons to continue to render valuable and efficient service.

BASIC PRINCIPLES

The attainment of the purposes of personnel management requires adherence to the following principles:

1. Employment and management of all personnel should be delegated to professionally competent personnel officers.

2. Qualifications or specifications should be established for each position, and all appointments should be made upon the basis of merit, after the qualifications of all applicants or recruits have been rated by experts.

3. All positions in the school system should be classified by the personnel officer according to the caliber of personnel required, duties, amount of service rendered, and other factors; and salaries should be established for each classification. Skilled personnel certainly should not be assigned and paid for doing work which might be done by unskilled workers.

4. Personnel should not be dismissed for social, personal, religious, political, or other unjust reasons; the only grounds for dismissal should be incompetency, inefficiency, or other legal reasons. The service of each employee should be appraised by the professionally competent, using objective measures insofar as possible, and retention and promotion should be made upon the basis of merit as determined by professionally trained personnel.

5. Means and incentives should be provided for stimulating continuous improvement in service on the part of all personnel.

6. Means and incentives should be provided for encouraging or compelling personnel to take leave of absence during temporary disability and to retire in case of permanent disability or superannuation.

7. Educational results are not the only consideration in determining salary and wage policies. Like all other institutions, the public schools must conform to generally accepted social policies, for example, minimum wages, maximum hours, workmen's compensation, old-age and unemployment security, tenure, seniority, and safe and sanitary working conditions. Although these policies enter into personnel expenditures, they do not necessarily increase educational returns.

8. The level of salaries and wages paid school personnel over a long period of time has a direct bearing upon educational returns. If the level is high enough relative to earnings in other occupations, the capable and competent are more likely to enter and remain in the teaching profession, provided that there are (1) professional appointments, (2) reasonable tenure, (3) absence of artificial barriers such as politics, preferences for local residents, or other policies not based upon merit, and (4) generally satisfactory working conditions. If the level is high enough relative to the costs of living at a professional standard, the more likely the personnel are to improve in service, assuming that good leadership and other incentives are present.

9. Rapidly raising or lowering the level of salaries and wages will not necessarily result in a commensurate increase or decrease in educational returns, because of the carry-over of personnel from the previous salary level. The increase or decrease in returns will be gradual; the cumulative effect upon the in-service improvement of employees and persons leaving and entering the profession is the most important—depending, of course, upon trends in salaries paid elsewhere, earnings in other occupations, and costs of living at a professional standard.

10. The main difference between wage policies and salary policies is in the nature of the services purchased. The time element (hours per day or per week, overtime, and weeks per year) is an essential

element in establishing wage rates. With professional salaries the elemental considerations are intelligence, professional knowledge and skill, and qualities of leadership. As with any professional service, accumulated background and technique are what determine value of the service, not the time put in on the job. Teaching service to be effective requires leisure for preparation, organization, and growth in skill and background.

APPOINTMENTS

Good public schools cannot be had unless public school authorities are free to select the best-qualified candidates for each position, unless appointments are made solely upon merit, unless there is freedom from pressures in appointments, and unless the salaries paid are high enough to attract well-qualified persons into the teaching profession. This principle is so sound, so simple, so understandable that any school system which gives it full publicity can rally public support to defend itself from pressure groups—both from those seeking positions for which they are not qualified and from their supporters who attempt to undermine the quality of the schools.

SERVICE

It follows that only personnel who satisfactorily perform the duties of the positions held should be paid the salary of the position. The solution is not paying incompetent persons less than that paid for satisfactory service. It requires assignment of the person to a position which he can fill satisfactorily or his removal from the service. If tenure laws operate to prevent this from happening, the solution lies in modification of tenure laws, not in the maintenance of mediocre salary policies which attract mediocre personnel.

There is justification at times for requiring some personnel to approach the salary of the position gradually. This is true where a new appointee has the potentialities for filling the job, but requires time to acquire the knowledge and skills called for. It also is true when it is necessary to upgrade a staff to a higher concept of the responsibilities of their positions. The increment device can be applied in such instances.

It often is necessary for fiscal reasons to strike a balance between the qualifications of staff and the amount of services to be provided. High qualifications can be ineffective if they result in such a high pupil-teacher ratio that the staff are overworked and pupils are denied individual attention. On the other hand, extremely small pupil-teacher ratios attained at the expense of personnel qualifications are of questionable educational value.

TENURE AND RETIREMENT

Policies and practices affecting the tenure and retirement of employees have a significant effect upon salary and wage levels. School systems with a 25-percent annual turnover of staff can maintain relatively liberal compensation for those who remain, their high compensation being offset by the low compensation for the many new entrants. Yet such a policy hardly fulfills the purposes of personnel policies. With practically 100-percent turnover every four years there can be little continuity. Personnel leave before they are ready to render effective service. Yet, at the other extreme, absence of any turnover for a long period has a deadening effect upon services and tends to depress salary and wage levels. If no youth coming into the service, a system is deprived of vitality and creativeness. Turnover must be controlled and kept at a level that will assure efficient, lively, and masterful service. Probably an annual turnover of 3 to 5 percent would be optimum. In filling vacancies attention must be given to keeping a reasonable balance as to age groups.

Administrative justice requires fair treatment of personnel who have devoted their working career to a system. They must be protected and allowed to receive the maximum return under retirement laws. The fallacy in decrements is that it reduces the retirement allowance of the person affected and thereby postpones voluntary retirement. Arbitrarily lowering the compulsory retirement age by legislation often does not allow enough flexibility for systems to adjust to conditions where it might be desirable to retain older teachers even though they are eligible to retire. It often may be a sound investment to raise the salaries of superannuated teachers immediately before retirement to encourage retirement and at the same time to provide

them with a reasonable retirement allowance. Yet it might be possible, although not as defensible, to withhold increments for a certain number of years prior to retirement, the amount withheld to be repaid to the teacher providing he retires when eligible. Where a teacher's services are seriously impaired by age, special assignments and leaves of absence with full pay can be utilized.

SOCIAL POLICY

From a strictly operational point of view the fundamental consideration in personnel management is competence to perform the duties of a position. Only the service would be paid for and no recognition would be given to the social obligations of the staff. If such a policy is pursued, the teaching profession would become limited eventually to men or women without dependents. As it is, the practice of paying men higher salaries than women is disappearing in schools.² The policy of discriminating against married women also is losing favor.³ The first was indefensible when applied to all men; the second was not based upon competence. However, unless personnel policy recognizes the dependency problem, men cannot make teaching a life work. Probably the soundest policy is to give recognition to the dependency problems of all teachers regardless of sex.⁴

DETERMINATION OF SALARY AND WAGE RATES

A most difficult financial problem in school administration is the determination of the salary or wage rates required to attract and hold the caliber of personnel required and to enable the staff to function at maximum efficiency. Many states have attempted to maintain their certification requirements by minimum salary laws, but salary problems cannot be solved solely by legislation. They involve a study of such factors as earnings in other occupations, living standards and costs, cost of teacher education, supply and demand, and public opinion.

² National Education Association, *Progress and Problems in Equal Pay for Equal Work* (1939), p. 21.

³ *Ibid.*

⁴ National Education Association, *Problems and Principles in the Scheduling of Teachers' Salaries* (1940), pp. 13-16.

Some factors, such as size of community, type of community (especially rural versus urban), and size of school district, although they do exert a considerable influence on the level of salaries,⁵ are by themselves relatively unimportant considerations and should be eliminated in the determination of salaries.

MINIMUM SALARY LAWS

Minimum salary laws have as their objective the maintenance of state minimum qualifications for teachers. Whether or not they do this depends upon their adequacy and the extent to which the state provides enough financial support to enable all school districts to pay the required salaries with a reasonable local tax effort. Such laws will not solve the other personnel problems of all school systems. Each must analyze its own personnel requirements in terms of purposes and program. Each must determine the level of salaries necessary to achieve the desired results. Generally the only districts which should pay the state minima are those fiscally weak districts that cannot afford anything but personnel with the minimum qualifications acceptable to the state. In such districts basic salary policies are established by state law.

EARNINGS IN OTHER OCCUPATIONS

No matter what qualifications are established and what other educational policies are adopted by public school authorities, the ability of a public school system to attract and hold qualified and desirable personnel will depend upon a factor beyond the immediate control of public school authorities, namely, earnings in other occupations. It is an axiom in economics that workers tend to migrate from low-paid, overcrowded occupations to better-paid, less crowded callings in the absence of arbitrary restraints upon occupational mobility. This elemental law of economics applies to public school teaching. When secretaries with high-school preparation or less can earn more than elementary school teachers with four years of college preparation, a sufficient number of qualified young persons will not make the investment required for teacher preparation, and experienced teachers will

⁵ See D. H. Cooke, *Problems of the Teaching Personnel* (1933), pp. 96 ff.

tend to leave the profession, as has been true during and following wars. When engineers, business executives, and others with high qualifications are unemployed or underpaid relative to teachers, there will be an influx of persons seeking temporary employment as teachers, as was true during the depression.

The recruiting and retention of good teachers depend largely upon salaries. When the general level of teachers' salaries is low relative to earnings in other occupations, the teaching profession cannot recruit the most able youth. During and immediately after World War I, teachers' salaries in the United States were very low relative to other occupations. In 1913 their average yearly salaries were 45 percent of the average of all federal government employees, 48 percent of the average of all salaried employees, 53 percent of the average yearly earnings of gainfully occupied persons in general, and about 86 percent of the average wages of workers in industry.⁶ Whereas teachers could earn 50 percent more a week than common laborers in 1910, by 1920 teachers and common laborers were receiving about the same return.⁷ Under such conditions there was no incentive for able youth to invest in the educational background and professional preparation required for teaching. The Annual Report of the Education Department of New York State for 1920 deplored the fact that "At the beginning of the school year 1919-1920 the registration in our state normal schools had reached the lowest point within a decade."⁸

LIVING STANDARDS AND COSTS

Differences in living standards among school districts are more significant than differences in the costs of living at a fixed standard in establishing salary levels. In the first place, it is practically impossible to live at a uniform standard in different communities. The same standards of housing, for example, cannot be applied to both densely settled and sparsely settled communities; the standards suitable for the sparsely settled area would be prohibitively costly in the densely set-

⁶ National Education Association, Department of Classroom Teachers, *The Economic Welfare of Teachers* (1931), p. 25.

⁷ W. R. Burgess, *Trends of School Costs* (1920), p. 71.

⁸ University of the State of New York, *Seventeenth Annual Report of the Education Department* (1921), p. 34.

tled area and vice versa. Other factors make for differences in transportation needs and facilities, recreational opportunities, clothing outlays, and other items. In the second place, there are wide differences in community living requirements. A suburban community of well-educated, professional families will require teachers to live at standards different from those required in a run-down mill town. Even if the community requirements did not vary with living standards, the standards of living assured teachers cannot be too far from the standards typical of the community. If teachers' living standards are too low relative to community standards, competent teachers either will not be attracted to the community or will not remain in it. If teachers' living standards are too high relative to community standards, public opinion will tend to be unfavorable to the teaching profession.

There are two difficulties involved in considering living standards as an important basis for salary policies: first, the fact that numerous living standards are possible on any given income depending upon the ability of the individual person concerned to make wise consumer decisions; and second, the fact that teachers have varying dependency loads. However, very low levels of income automatically preclude most living standards; and adequate salaries assure a wide variety of standards. Hence, all that school authorities can do is provide salaries high enough to purchase the agreed-upon living standards in the community, assuming the teacher has average managerial ability and an average dependency load.

Cost-of-living indices, although they are widely used in determining salaries, are generally misunderstood and misused. Among the facts misunderstood and responsible for misuse are the following: There are extremely wide variations in living standards. There are almost as many costs of living as there are living standards. A single uniform living standard must be presumed for constructing a cost-of-living index. Cost differences measured by the index apply only to the hypothetical standard used, and caution must be used in making inferences about costs of other living standards. The standard of living used in most cost of living indices is that for a four-person family having a relatively low income and spending the major portion of its income for food, clothing, and shelter.

Housing costs plus transportation costs probably are the best single index of differences in total cost of living at standards in which the costs of these have significant place in the budget. Expenditures for these two items affect the costs of hundreds of other items which enter into a living standard. Density of population increases land values, increases the need for public utilities and services, and inflates housing costs. Spread of population within an urban or metropolitan region increases the cost of transportation and inflates the cost of public improvements or services. A person must choose between housing having proximity to stores, schools, churches, and other institutions where housing costs are high, or housing in more remote sections with increased costs of transportation and lower housing costs. Urbanism and metropolitanism with high land values, great dependence upon public utilities, and need for transportation have an inflationary effect both on living standards and living costs. In sections of metropolitan areas will be found communities with abnormally high standards of living and living costs. High living costs tend to go along with high property valuations, but valuations will vary by a higher percentage than will the costs of living at a given standard—differences in living standards again. High taxes are both a cause and an effect of high costs of living at given standards.

COST OF TEACHER EDUCATION

The effect of salary policies upon the number and quality of persons selecting teaching as a career is relative to the cost of preparation. Assuming that average teachers' salaries are higher than those of private secretaries, the difference in salaries may not be sufficient to encourage the investment in the extra preparation required for teaching. Salary levels for teachers must be based in part upon the cost of teacher preparation—both pre-service and in-service.

The cost of teacher preparation is determined by two circumstances—the length of preparation required and trends in the cost of higher education. It is common knowledge that the length of preparation required for teaching has been increasing, even during the depression when salary levels were being reduced. Evidence of these trends already has been presented. Another fact, not generally recognized, is

that the cost of higher education also has been increasing, even during the depression. Prior to the depression, there was a steady upward trend in college tuition and other costs of college education. During the depression, decreased returns on endowments forced many private colleges to increase tuition charges; and decreased appropriations or increased responsibilities forced state institutions to increase fees and other charges made upon students. Inflation accompanying and following the war forced tuition rates, fees, and the cost of board and room still higher.

SUPPLY AND DEMAND

Decreasing enrollments, fewer teaching positions, unemployment in other occupations, insecurity in private employment, and the improved economic status of the teaching profession made supply and demand a critical issue in determining salary policies for public schools during the depression. The manpower shortage and the unfavorable economic status of teachers have made supply and demand of teachers also a serious postwar problem.

Generally the law of supply and demand has been interpreted to mean that the greater the supply of teachers relative to the demand, the less school authorities have to pay in salaries; and the greater the demand relative to the supply, the more they have to pay. Unfortunately the relationship between the two factors is not so simple. Low salaries can lead to scarcity of teachers and thereby give an impetus to higher salaries; high salaries can lead to overcrowding and the lowering of salaries. Moreover, supply is not a simple concept; nor is demand.

The supply of teachers in a practical sense is the number of licensed teachers who are seeking employment or can be induced to seek employment within a state at a given time. It really equals all employed teachers who might want to change positions, plus all other eligible candidates seeking teaching positions. The National Education Association's Committee on Supply, Preparation, and Certification of Teachers recommends the following definition: "The current supply of teachers for positions of any given type is equal to the number of persons not employed in positions of this type during the preceding

year who are certificated (or eligible for certification) and who are available for appointment to positions of the type under consideration in the year being studied."⁹

Supply defined even in such a narrow sense is difficult to measure and control. When certification requirements were lower than they now are, tens of thousands of life certificates were issued. Very frequently these low-grade life certificates were very general, permitting teachers to teach almost anything to almost anyone. Thousands of persons holding such licenses have left teaching for other occupations, for marriage, or for other reasons. Many of them may decide to return to teaching in any one year. Moreover, other thousands of persons holding higher grade, more specialized licenses good for life or for a long period of time are no longer teaching, but may seek employment at any time. Persons from other states eligible to teach under the requirements in a certain state may move in to that state at any time and seek employment as teachers. Many graduates of colleges not under the control of the state may seek positions as teachers; many graduates of state teacher institution may decide not to teach.

Since there is no central agency where all potential candidates must register their intent to seek employment as teachers during a given year, it is practically impossible to measure accurately the supply of teachers.

Another complicating factor is that many local school authorities have requirements higher than those set up by the state. This factor reduces the supply for the districts with the higher requirements for teachers, but increases the supply for the districts which will accept the lowest requirements. As Morrison says: "A literally enormous number of independent districts are always competing with one another for labor in the presence of a great labor reserve. Most of the districts are fiscally unable to pay more than casual-labor wages. . . . Competition is thus always in the direction of low wages and not in the direction of minimum wages for maximum quality."¹⁰ The supply of teachers is relative to the standards or requirements of the local

⁹ National Education Association, *Teacher Supply and Demand: A Program of Action* (1941), p. 21.

¹⁰ H. C. Morrison, *The Management of the School Money* (1932), p. 229.

school district. There probably never will be an oversupply of well-qualified teachers. Small rural school districts seem to be less willing and less able to establish high standards; hence the vicious cycle of oversupply, low salaries, and low qualifications operates at its worst in rural areas.

The uncontrolled operation of supply and demand in determining teacher salary levels will not make for good public education. Qualifications will be determined not by the educational program, but by the level of salaries paid. Shifting from job to job will be substituted for thorough pre-service preparation and accumulated professional growth and experience. Financial instability and insecurity will destroy morale. Overcrowding will alternate with periods of teacher scarcity.

PUBLIC OPINION

The only teacher salary policies which will remain in force are those which the public will continue to support. Unless the public wants good schools, understands that good schools require good teachers, and realizes that salary policies are established to promote good schools, teachers' salaries are always in jeopardy. All organizations interested in civic well-being should participate in the formulation of salary policies and should be kept informed on the reasons for present salary policies or changes in policies. The public in general should be kept informed continuously through every possible means. The first step in gaining such public understanding and support is having definitely established policies and standards that are defensible.

WAGE RATES

Basic wage rates for nonprofessional personnel in schools are determined largely by trends in private employment. Nonteaching personnel, if skilled, possess skills that easily can be marketed with other employers. They quickly can shift from public school employment to other public or private employment. The same is true of unskilled labor. Thus, wage rates tend to respond more quickly to changes in prevailing levels in other employment than do salaries of teaching personnel, who cannot easily shift to other employment. Because of

this factor, wage rates tend to adjust to cost of living changes more than do teachers' salaries.¹¹

A fundamental principle in the determination of wage rates is that money spent for nonteaching personnel is money that is not being directly spent on the carrying out of the functions of schools. Therefore, such expenditures must be kept at the minimum required to perform the work incidental to instruction. This does not imply exploitation of labor, or inhumane management. What is implied is resistance to politics or coercion which force wage rates above levels that can be justified in terms of prevailing wage rates, living costs, and salaries paid highly educated professional employees.

COERCION

Collective coercion by employees does not assure sound salary or wage policies. Management should avoid creating conditions that make it necessary for employees to resort to force. Force, once used to correct justifiable grievances, may be used later to obtain unreasonable demands. Management must be ready to listen to representatives of employees whether or not they are unionized. The issues should be studied carefully by management and employees together, with all pertinent facts being considered. Where they cannot arrive at a mutually satisfactory agreement, provision should be made for impartial review by a state agency. This is far better than prohibiting strikes by public employees without establishing machinery for setting grievances or disputes.

USE OF PERSONNEL

One of the major potential sources of waste in public school management is in the use of personnel. Outstanding examples of such waste include uneconomical work loads and the assignment to highly trained, highly paid personnel of work which might be performed by persons with less training, receiving lower salaries. Since salaries and wages represent the major part of the school budget, such wastes become serious.

¹¹ A. B. Moehlman, *Public School Finance* (1927), ch. X.

TEACHING PERSONNEL

The control of pupil-teacher ratio or work loads involves a great many factors, for example: the objectives to be attained; the skill of teachers; curriculum provisions, requirements, policies, and restrictions; organization; length of the school day; the size of the unit of administration; the size of the attendance area; the size and structure of plant and other facilities available; adjustments to decreasing enrollments; and schedules.

Small class-size, pupil-teacher ratio, or small work load in order to attain certain results does not mean waste if the objectives are being achieved and if equal or better results cannot be attained by more economical use of personnel, facilities, and materials. A school system which stresses individual attention and broad objectives will have to operate on a smaller pupil-teacher ratio than a system concentrating upon group mastery of a limited number of skills or subject matter, but this is relative to the technical skill and efficiency of the staff. Research has tended to support the hypothesis that larger classes are about as effective as smaller ones in mass instruction in textbook content, but research has not yet provided the answer for other objectives. Consensus and average practice would indicate that a class size of twenty-five to thirty-five is optimum for most instructional purposes. The pupil-teacher ratio, of course, will be smaller and will vary depending upon the special services provided. Work loads will depend upon the objectives, curriculum, preparation required daily, services rendered, methods used, and many other factors. Achievement of results desired, methods and efficiency, and the health and morale of the teaching staff must be weighed in making decisions on class size, pupil-teacher ratio, and work loads. It is somewhat doubtful that extremely small class size or small pupil-teacher ratios can be justified educationally.¹²

Extremely small units of school government, unsatisfactory attendance areas, and poorly located and constructed plants are among the major causes of inefficient use of personnel. These were discussed in Chapter III.

¹² See *Encyclopedia of Educational Research* (1941), pp. 197 ff. See also H. H. Linn, *Practical School Economics* (1934), pp. 138 ff.

Failure to adjust the staff to decreasing enrollments will decrease pupil-teacher ratios or class size and increase waste. When both elementary and secondary school enrollments were declining, this became one of the most serious difficulties confronting school management in all types of school districts. Curtailment of new appointments, retirement at an earlier age, careful elimination of the incompetent, retraining competent personnel for other types of work, closing schools, combining classes, and abolishing unnecessary positions must accompany downward trends in registration. Failure to make such adjustments not only means present waste but it means future waste through curtailed salary schedules and the consequent deterioration in personnel. The necessary adjustments can be made by local management in the large units, but in small units adjustments to decreasing attendance can be accomplished only by district reorganization and changing the sparsity factor in state-support formulas.

The making of a program or a schedule offers management its greatest opportunity to plan for the economical use of personnel and physical facilities, particularly in the high schools. Schedule-making goes far beyond the assignment of persons to a given duty, in a given place, at a given time. It involves an evaluation of each activity and a consideration of whether or not the activity needs to be offered every year or in every school. There is no reason why many small-enrollment subjects cannot be alternated. There is no reason why certain specialized college-entrance, vocational, technical, or other small-enrollment courses should not be offered only at certain convenient regional centers. Schedule-making, moreover, requires a careful appraisal of all physical facilities, planning for multiple use—for example, installing cafeterias for study halls, making alterations to existing plant, and the purchasing of additional furniture and equipment where necessary. It also requires some imagination in relation to timing. Why should all offerings come during certain hours of the day? Why should not certain advanced courses be offered at night when adults, out-of-school youth, and high-school students may enroll? Why should all periods be the same length year after year, day after day, and within a given day? Why should a school have the same number of periods every day? Why should all courses be for the same number of weeks?

The schedule is almost as fundamental in management as the budget itself. Only through inventiveness, experimentation, and flexibility in schedule-making can the maximum use be made of personnel and material. The schedule, next to the budget, determines the return received for money spent. The schedule controls the use of time, effort, and materials in a school system. The maximum curriculum enrichment for money spent is relative to the schedules made. Management should give schedule-making the emphasis it deserves.¹³

NONPROFESSIONAL EMPLOYEES

A fifth of the employees of school systems may be nonprofessional, such as clerks, custodians, maintenance workers, bus drivers, and cafeteria employees.¹⁴ Waste in the use of these can run as high as 50 per cent or more. It generally is present where political appointments must be made for patronage and relief. It generally exists wherever there is little supervision, poor planning, duplication, poor equipment and supplies, lack of transportation, no training program, lack of co-operation, and a dearth of labor-saving devices. The optimum use of nonprofessional employees requires merit appointments, careful planning, coöperation from professional personnel and pupils, standards for workmanship, supervision, job analyses and time studies, appraisal of methods of doing jobs, work schedules and time schedules, on-the-job training, and employment of all means to increase labor efficiency.¹⁵

The need for employees can be reduced by thoughtful planning. (1) Through planning, the personnel requirements for offices, plant, transportation, and other auxiliary enterprises can be reduced. (2) As shown in the next chapter, economy in the management of expenditures for material must be weighed against labor costs. Plant and equipment requiring large outlays for operation and maintenance should be disposed of as soon as possible. (3) Peak load should not determine the number of employees. The peak load can be handled by the use of

¹³ See R. E. Langfitt, *The Daily Schedule and High School Organization* (1938); R. C. Puckett, *Making a High School Schedule of Recitations* (1931).

¹⁴ Hazel Davis, *Personnel Administration in Three Non-Teaching Services of Public School Systems* (1939).

¹⁵ See H. H. Linn, *op. cit.*; F. E. Henzlik and Others, *Practical Economies in School Administration* (1932); William S. Cooper, *Economy in Education* (1933).

part-time employees or temporary use of other personnel. (4) Temporary need must be distinguished from normal need for help. Temporary demands should be filled with temporary employees. Positions no longer required should be abolished without delay. (5) In employing personnel, stress should be placed upon multiple skills—janitors who can make minor repairs, bus drivers who can assist with custodial work, and clerks who can perform a variety of office duties. (6) When a job has to be done, the tools and materials to do the job should be there before the job is to begin. (7) Generally there is no saving in failing to provide proper tools and materials. The waste in time and effort costs more than the savings on materials. (8) Simplification of procedures and routine is a potential source of labor saving. (9) Where employees have to move from one place to another during the day, rapid transportation should be provided. (10) The frequency with which certain jobs must be done can often be reduced through planning. Steps taken to increase the civic pride of a student body and to increase faculty coöperation reduce the amount of work involved in operation and maintenance. (11) The time and place where work is to be done affects the efficient use of labor. For examples: cleaning often can be done efficiently at night when a building is empty. Office work can be done with less waste where the workers are not distracted by staff or pupils. (12) Centralization or consolidation of operations or services often provides opportunities for reducing personnel requirements. Pooling of office personnel can result in savings. (13) Routine carried on year after year should be examined. A large amount of clerical work can be devoted to records or reports that are no longer used or that no longer are considered important. (14) Staggered work schedules can be utilized to make maximum use of all personnel. The size of the shifts can be adjusted to the work to be done at certain times. (15) Regular personnel can be trained and used for other work during the vacation periods, thereby reducing the amount of extra help required.¹⁶

The number of employees required is relative to the standards established for office work, plant operation, maintenance, and auxiliary services such as cafeterias and transportation. Labor saving that results

¹⁶ Linn, *op. cit.*, pp. 126 ff., 202 ff., and 288 ff.

in health and safety hazards is not economical. Labor saved at the expense of a greater outlay for materials, such as fuel, or a greater ultimate labor cost for repairs may be most unwise. Standards must come first, but they should be no higher than is absolutely essential to carry out the functions of the schools. They should be reexamined frequently.¹⁷

The number of employees required to do any job at a given standard is relative to the efficiency of employees. Efficiency can be increased through careful selection, on-the-job training, maximum use of labor-saving devices, and supervision. Even where it is possible to select efficient workers, efficiency can be increased through training. Workers can improve their skills, learn new methods, and acquire knowledge necessary to effective performance, and acquire other skills of use to the school system. Custodians can be taught to service equipment and make many minor repairs. Bus drivers can be taught to make many repairs both on transportation equipment and other school equipment. Large school systems can maintain their own training programs as has been done in Minneapolis. All school systems can prepare simple directions and demonstrations for employees.¹⁸ State education departments or colleges can establish courses for the smaller school systems as has been done in states like Colorado, Connecticut, Kansas, Nebraska, New York, and many other states.¹⁹

The purpose of supervision is not merely to see that employees do not loaf on the job. One of its chief functions is to screen out for permanent appointment employees who do not require watching. Another function is to make job analyses, time studies, and experiments with new methods, labor-saving devices, tools, and supplies. Out of such studies done in coöperation with employees will come a better idea of the what, when, and how of the work to be done. With such knowledge it is possible to prepare work and time schedules to get the work

¹⁷ See N. L. Engelhardt and Others, *Standards for Public School Janitorial-Engineering Service* (1926); and H. H. Linn, *Check List Forms for Rating School Custodial Service* (1940); and H. M. Schwartz, *Improvement in the Maintenance of Public School Buildings* (1926).

¹⁸ K. O. Brady, *Handbook for School Custodians* (1940), or handbooks like those for Seattle and Arkansas.

¹⁹ G. F. Womrath, *Efficient Business Administration of Public Schools* (1932), ch. XII.

done with the least labor cost. Such schedules show the work to be done, when it is to be done, and the time required. Like the schedule for professional employees, they indicate the number and type of personnel required to perform the nonprofessional work in the schools.²⁰ Supervision also helps organize the work where many are involved.²¹

It generally is impossible to establish arbitrary norms as to the amount of labor required to do certain jobs. In operation and maintenance it depends upon the type of construction, the age and condition of the plant, the kind of heating equipment, the neighborhood (smoke and dirt), and tens of other variables. Each school system must determine its own labor needs. Published standards, nevertheless, provide a starting point for analysis. They put management on the alert to find the cause of variation—is it labor inefficiency or something else? The administrator should examine studies of the use of nonprofessional employees in other school systems.²²

The use of skilled labor to do work that could be done by unskilled labor is hardly ever justified. Although other employees can be trained to make minor repairs, work requiring special skills generally should be assigned to skilled labor. This applies especially to the servicing of plant and other expensive equipment. Whether or not a school system should contract for such services or employ its own skilled workmen depends upon the volume of work and the supervision that can be provided. It can eliminate the contractor's profit only if it can get the same efficiency as the contractor. To do this requires organization and oversight.

What both private contractors and public employers can get by way of efficiency depends upon worker morale. With the spread of unions among school employees this problem becomes serious. Unless the leadership of the union is concerned over output and efficiency, the union can become an instrument for increasing the use of personnel

²⁰ See Linn, *op. cit.*, pp. 204 ff.

²¹ Nelson E. Viles, *The Custodian at Work* (1941); C. E. Reeves and H. S. Ganders, *School Building Management* (1928); and Harold D. Hynds, *Guide for Supervising Custodian-Engineers* (1946).

²² For example: M. G. Pattington, "How Many Janitors?" *American School Board Journal* CXII (May, 1946), p. 49; or Harry Smullenburg, "Assignment of Clerical Assistance in Elementary and Secondary Schools," *American School Board Journal* CX (Feb., 1945), 37-38.

rather than reducing it where such reduction can be made without disadvantage to the workers retained.

EVALUATION OF SERVICES

Sound personnel management must be based upon the principle that persons rendering a service are sufficiently competent to attain reasonable results. Where the results are simple and can be expressed in quantitative units, such as volume of production of bolts or volume of sales of shoes, this policy is relatively easy to apply. However, in a complex social service like education with multiple objectives and many qualitative factors, evaluation is not simple. The variables are many and the tools of evaluation are crude.²³

NEED FOR ADMINISTRATIVE COMPETENCE

If a school system lacks competent professional, nonpolitical administration of schools there just is no way of assuring merit in teaching service. School administrators must be selected and retained who possess the necessary personal and technical competence, particularly in personnel management. Those who are to select, assist, and dismiss teachers must be selected and dismissed on a merit basis. As it is, school administrators sometimes are selected and dismissed by lay boards for reasons which would be difficult to define and often very hard to defend. Once selected, their services are seldom appraised by persons competent to judge school administration.

DIFFICULTIES INVOLVED

Under conditions of controlled experimentation where individuals could be subject to identical environmental forces, it might be possible to discern their relative strengths and weaknesses. However, no two teachers operate under identical environmental conditions. Each has different pupils or combinations of pupils, different assignments, somewhat different responsibilities, and somewhat different physical settings. Furthermore, the real value of teaching service depends upon the effects upon individuals. These effects are conditioned by the past efforts

²³ W. G. Reavis and D. H. Cooper, *Evaluation of Teacher Merit in City School Systems* (1945).

of other teachers, differences in the natural characteristics of pupils, and differences in the environmental experiences of pupils. Many of the effects are not felt for decades. Measurement at the present time does not get directly at these effects, but turns to secondary considerations such as personality traits, teaching technique, knowledge, and professional activities. There is no certainty that judgments based upon such factors necessarily are reflected in actual educational results.

One of the most serious dilemmas in evaluating a complex social activity like education is striking a balance between conformity and heterogeneity. The valuation process tends to stress conformity to preconceived values and standards. Yet values and standards that are disregarded or depreciated may be more important than those that are stressed and appreciated. If an attempt is made to evaluate individuals on a heterogeneous basis, then it becomes almost impossible to assign equivalent weightings to the different attributes. We have no way of knowing whether the sum of A, B, and C characteristics is less than, equal to, or more than, the value of the sum of X, Y, and Z characteristics.

INDIVIDUAL DIFFERENCES

In the actual operation of schools we possess only a very finite degree of reasonably certain knowledge. Under the circumstances it would seem to be the wise policy to take individual differences for granted. Instead of dissipating effort in attempting to place values upon the different strengths and weaknesses of the staff, it would be far better to devote the energies to molding the different talents and attributes of the staff into a working team. Few individuals can approach our conceptual ideals, but a team can approach the ideal much more readily by combining the outstanding characteristics of many individuals. An institution which capitalizes upon individual differences, building up the strengths and subordinating the weaknesses of the staff, can give pupils a far better educational experience than can an institution made up of uncoordinated, competing, discrete personalities.

APPLICATION OF MERIT AT EXTREMES

The application of merit inevitably involves appraisal or some kind of measurement. In all complex evaluation or measurement where the

instruments are crude, the safest place to begin is at the extremes. Even a crude instrument often will detect extreme variations. Making fine distinctions on either side of a central tendency requires an extremely sensitive and accurate measuring instrument. It is in this area that subjective judgment tends to make its greatest errors. Even with such a simple thing as achievement in a content or skill subject it is difficult to determine subjectively the relative standing of individuals in the middle groups.

Once we have secured good school administration competent to handle personnel problems, we should first apply merit in the initial selection of teachers. This is like preventive medicine. It eliminates at source the shortcomings which some school administrators try to remedy by rewards and penalties. One of the weakest aspects of school administration in the past has been the slipshod way in which teachers have been selected and placed on permanent appointment. Most teachers are hired without any direct observation of their work and all too many are placed on permanent appointment without sufficient observation of their performance in a particular environment. Rigorous selection will make it easier to achieve merit in the service.

A second step which can safely be taken at this time is the elimination of teachers who are outstandingly incapable or unwilling to do what is expected in their positions. Even with crude measuring instruments such extreme cases can be detected. Of course, mistakes will be made, but the mistakes will not handicap effective operations. The extreme deviates will be eliminated from the service, which is much better than keeping them in the service at the expense of the children and further imposing penalties or lack of rewards which only increases the liability by adding emotional disturbance to the initial incompetence. Furthermore, unless the extremely ineffective persons are removed from the service, after having been given every reasonable opportunity and assistance, it is futile to talk merit to the remainder of the staff who are doing reasonably satisfactory work.

PAYMENT FOR SERVICES

The attainment of high-caliber professional service requires the payment of a professional salary after a reasonable probationary period.

Some teacher-salary schedules provide salaries higher than necessary during the probationary period. Few ever provide a professional salary level. Most require too long to reach even a subprofessional salary. If the purpose of the salary is to provide competent personnel with a living standard conducive to effective service, the professional salary should begin as soon as the employee has proved his competence. Ordinarily this would mean after about five years' service. Increments generally are a fiscal device for delaying the payment of an adequate salary. It is a fallacy to regard the increments in most salary schedules as rewards for improved service.

SALARY SCHEDULING

In the absence of an automatic salary scale or schedule, teachers must bargain individually with school boards. Because merit is practically impossible to measure accurately and objectively and because personal and psychological factors cannot easily be eliminated, individual bargaining is almost certain to give the advantage to the aggressive, the politically powerful, the personally influential, and those who can use other forms of pressure. For the same reasons, morale among the entire teaching force is likely to be bad when compensation is determined upon the basis of individual bargaining. A salary schedule, on the other hand, is impersonal and objective, and eliminates many petty psychological conflicts. It is easier to administer than individual bargaining. It also simplifies budget-making. It increases security and makes for stability in employment. It improves the status of teaching as a profession.

A salary schedule, however, presents its own problems; it has limitations; and there are dangers to be avoided. First of all, a salary schedule should not determine educational, personnel, and salary policies; rather the schedule should grow out of and be a means for putting agreed-upon policies into effect. There also is the danger that the equalizing effect of a salary schedule will weaken initiative to do a better than average job, but this danger can be avoided by a good supervisory program and a properly conceived schedule. Moreover, there are weaknesses in certain existing schedules which should not or need not be continued, for example, concentrating all increments during the first

few years of service, not providing a sufficiently high maximum to promote best efforts, and inflexibility in adjusting to changed conditions. The disadvantages can be overcome and the advantages are great. As Elsbree concludes, "It is no longer a question of whether or not a school system shall have a salary schedule; the problem today is how to formulate the most effective schedule."²⁴

Several statements of principles of salary scheduling have been made. For example, Lewis lists the following:²⁵

"A minimum age, certificate, amount and kind of training should be required of all beginners."

"Other factors being the same, the teacher in one grade should receive as much salary as the teacher in any other grade or school division."

"Salary increases and attainable maximum should be so arranged that (a) they offer a career in teaching; (b) they induce the best young men and women from high school to prepare for teaching; and (c) they secure constant improvement during the time of teaching."

"The more and better the academic and professional preparation that a teacher has, other factors being equal, the more salary she should receive."

"The more successful experience a teacher has had, other factors being equal, the more salary she should receive."

"There should be enough flexibility in the salary schedule to provide extra pay for teachers of extra ability."

"Between the sexes there should be, wherever possible, equal pay for equal merit, equal training, equal experience, and equal work."

A more recent statement of principles includes these additional ones:²⁶

"The construction of teachers' salary schedules and the formulation of salary policies should be undertaken jointly by classroom teachers, school administrators, school board members, and interested laymen."

"The use of so-called efficiency ratings as a basis for salary awards is impractical and inadvisable in public education."

"The relationship of professional and academic qualifications to the location of teachers on the salary scale should be clearly stated in the rules

²⁴ W. S. Elsbree, *Teachers' Salaries* (1931), p. 6.

²⁵ E. E. Lewis, *Personnel Problems of the Teaching Staff* (1925), pp. 279 ff.

²⁶ National Education Association, *Problems and Principles in the Scheduling of Teachers' Salaries*, pp. 6 ff.

and regulations governing the operation of the schedule and regular appraisal should be made of individual teacher qualifications."

"Provision should be made in a salary schedule for definitely announced salary increases to be awarded regularly at fixed intervals of time until a given maximum salary is reached."

"Teachers' salaries should be based in part on the cost of maintaining an appropriate standard of living."

In changing from one schedule to another, a number of principles have been developed including these:²⁷

"No teacher's salary should be reduced as a result of the new schedule."

"All new teachers coming into the system should be placed on the new schedule at once, provided that the minimum qualifications are met."

"All teachers' salaries should be increased at least to the minimum to which their preparation entitles them, except in the case of those teachers whose inefficiency has been clearly demonstrated."

"Teachers who have been receiving more than the minimum for their group should receive no regular annual increment until the group has been advanced to their present level."

"Teachers who have been receiving more than the maximum for their group should not be eligible for further increases until further preparation is secured."

"Teachers who come into the system with teaching experience should be placed above the minimum for their group. Generally two years of experience outside the system should be equal to one in the system."

Other principles are implied in the discussion of basic policies and factors.

TYPE OF SCHEDULE

Usually salary schedules are classified as position-type or preparation-type (the single salary schedule).²⁸ The real difference, however, is in the fundamental policies or principles being carried out. The position-type schedule and its variations provide higher salaries for teachers in certain positions regardless of preparation, that is, high-school teachers

²⁷ D. H. Cooke, *Administering the Teaching Personnel* (1939), p. 297.

²⁸ See Elsbree, *op. cit.*, ch. IV.

automatically get higher salaries than elementary-school teachers. The single salary schedule provides equal salaries for teachers with equal qualifications and equal responsibilities regardless of position.²⁹ Obviously most position-type schedules are a carry-over from the period when the difference between the preparation for high-school teaching and that for elementary-school teaching was much higher than it is today. Often merit provisions are combined with either of the foregoing types, and the schedule is referred to as a merit-type. Under the last type, salary increments depend wholly or in part upon an evaluation of services rendered.

All these types contain many subjective elements. In the first two the decision as to the relative value of preparation and experience must be made on subjective considerations. The relative weightings given to experience and preparation in determining salaries are subject to wide variations in practice. The merit-type schedule attempts to overcome the limitations of assuming that given amounts of preparation or given amounts of experience are equally valuable.³⁰ However, rating at the present time is itself a very subjective process and has serious effects upon morale.

The extent to which salary schedules should be based upon merit cannot be answered with confidence. It depends upon subtle psychological considerations. How will the morale of the many be affected by the giving of additional compensation to not quite so many on the basis of merit? Will it call attention to their inadequacy and thereby decrease their efficiency as teamworkers? Will there be enough additional efficiency upon the part of those rewarded for merit to offset the loss? These questions must be answered. No personnel policy in schools can be justified unless it increases the total effectiveness of the entire staff. The extent to which merit should be a factor in salary schedules will depend upon how it affects morale and operational achievements. Research has no answer. Experience tells us to be cautious.

Generally, separate schedules are provided for classroom teachers, administrative and supervisory employees, special professional services,

²⁹ See L. L. Morris, *The Single Salary Schedule* (1930); R. R. Bowles, *The Operation and Effect of a Single Salary Schedule* (1932).

³⁰ L. P. Young, *The Administration of Merit-Type Teachers' Salary Schedules* (1933).

clerical or office employees, skilled or semiprofessional services, and unskilled labor.

SCHEDULE PROVISIONS

A salary schedule is more than a statement of minimum salaries, increments and maximum or supermaximum salaries. It should contain a statement of all school board policies and state laws affecting teacher salaries (these basic policies have been discussed elsewhere). It should summarize the qualifications for each type of position and the laws, rules, and regulations regarding appointments, tenure, dismissal, and retirement of all personnel. Provisions regarding sick leave, leave of absence, sabbatical leave, marriage and maternity, travel allowances, expense accounts, insurance, medical care, allowance for summer-school attendance, allowance for dependents, allowance for extra duties, and similar personnel policies should appear in the schedule. Regulations affecting prior service in other systems, substitute service, probationary teachers, in-service preparation, transfers, abolishing positions, pay rolls, frequency of payment, discipline, local residents, and other administrative rules and procedures affecting personnel and their compensation should appear in the schedule.³⁰ Where different schedules are in force for different types of work, such as supervision, maintenance, or administration, such schedules should be included along with the teacher schedule.

INCREMENTS

Increments have been used as a fiscal device to delay payment of an adequate professional salary. The objective of increments should be to bring the teaching staff quickly to a salary above that of skilled labor and commensurate with what persons with similar abilities, preparation, experience, and skill can earn in other public or private employment. It is justifiable to keep teachers' salaries close to the minimum during the trial or probationary period (usually about three years). Many of those who try will fail to demonstrate the qualities assumed to be essential for a successful teaching career. To pay high salaries

³⁰ For a study of these items see P. A. Cowen, *Teachers' Salary Schedules* (University of the State of New York Bulletin No. 1173, 1939).

during the try-out period will prove wasteful. However, once a person has demonstrated his capacity to assume his professional responsibilities, he should be stepped up as quickly as possible to a professional salary level, probably within five years after the probationary period. It can be safely assumed that living standard has a high relationship to service. Hence, it is desirable to enable teachers to enjoy the desirable professional standard of living early in their careers. Too often increments are used as a device for postponing professionalization of teaching until a person is almost ready to retire. If salaries contribute to effective service as they must to some extent, the salaries should be paid during the years of greatest potential contribution to the service, not when age and infirmity are beginning to reduce efficiency.

PAYROLL PROCEDURE

The information employees require regarding payment for services should be summarized in the salary or wage schedules or statements of salary or wage policies. Each employee of a school system, full-time, part-time, regular, or temporary, should be supplied with the following information (up-to-date): (1) regulations on sick leave, leave of absence, and other absences, especially the provisions for payment during absence; (2) amounts deducted for retirement, taxes, or group insurance; (3) policies on reimbursement for travel related to daily work, summer-school attendance, extra duties, overtime, or other expenses incurred in connection with work; (4) data on length of term, holidays, frequency of payment, date of payment, place of payment, and manner of payment; (5) procedures to be followed in securing adjustments in payment resulting from errors, omissions, or lack of data; (6) regulations on substitute service.

A growing number of school systems are allowing a certain number of days of sick leave annually without salary or wage reductions. Many school systems allow this leave to accumulate. The objective in cumulative leave is to provide security against serious illness and to discourage unnecessary absence. In the case of absences not sanctioned by regulations, there may be penalties as well as full payroll deductions. Absenteeism should be studied from time to time to determine causes to make the changes in policies, regulations, or practices required to reduce it.

The objective in payroll preparation is to make payments in full on the date agreed upon. This first implies good central control of income to have the funds available when needed. It means that the payroll must be prepared in the central office, following a calendar showing each payday, the date that reports from operational units must be in, the date the payroll must be ready, holidays and vacations. To save time and money, the central office should have a master list of personnel giving number, name, assignment with the amount due for each payroll period based upon copies of all contracts and agreements kept on file in the central office. Changes in personnel, assignments, positions, and salaries should be kept up to date. Calculations for absences, taxes, retirement, insurance, or bonds should be made in tabular form so that they can be copied and verified quickly. Columns should be provided in the payroll forms for deductions because of absences, net payment due after such deductions, plus columns for each deduction to be made (retirement, taxes, etc.), and a final column for the amount to be paid. The completed payroll should be signed by the officer authorized to approve it. The forms should be planned to yield the data required for accounting with space for coding.

Prudent payroll management precludes payments in cash. Cash payments make it difficult to discover and rectify errors. The danger of loss is always present. Warrants that have to be discounted in order to receive immediate payment cannot be defended. They are in reality salary reductions which may not be justified. The soundest method is payment by check or its equivalent, which can be used as a receipt and which can provide basic data needed for accounting. With checks errors can be easily verified. Where mistakes are made they should be rectified without delay.³¹

SUBSTITUTE SERVICE

The objective in the administration of substitute service is the maintenance of operational efficiency. Large systems with a predictable minimum of absence can retain a number of full-time employees specifically prepared for substitute service. All school systems can improve efficiency by paying substitutes on the same basis as they pay

³¹ See N. L. Engelhardt and Fred Engelhardt, *Public School Business Administration* (1927), ch. XXV.

regular employees with similar qualifications, by treating substitutes as an integral part of the school service with the same benefits and responsibilities, by orienting substitutes regarding the school program and practices, by providing specific in-service preparation for substitute services, by requiring regular employees to keep a cumulative record of what they have done up to the time of absence, and by maintaining a file of teaching aids that will enable daily substitutes who have no opportunity to prepare their work to make worthwhile use of their time. The maintenance of efficiency and dispatch in handling substitute service presumes central control of substitute assignments with a pooling of the personnel available, the maintaining of adequate records of their qualifications, and the utilizing of every device for quick communication. The maintenance of effective substitute service in small school systems generally can be attained only by utilizing some central agency such as a teachers' college or a county superintendent's office.

SUMMARY

Personnel account for most public school expenditures; so the major part of financial management involves salary and wage policies and the use made of personnel. Unless management is free to seek the most competent for each position and unless merit governs retention, promotion, and dismissal of staff, it is impossible to defend salary and wage policies. A balance must be attained between quality of staffing and the quantity of services to be provided. There should be a balance as to age groups with turnover kept as low as possible.

The major factors involved in determining salaries are earnings in other occupations, living standards and costs, cost of teacher education, supply and demand, and public opinion. Minimum salary laws are valuable only for enforcing minimum certification requirements in backward districts. Salary policy should be determined in terms of local conditions. The supply of good teachers is always limited. Oversupply can occur only in districts with low standards. Since nonteaching personnel have easily marketable skills, wages in schools tend to adjust quickly to prevailing rates. However, if wages are allowed to get out of line with educational outlays, the schools cannot perform their major functions effectively.

The greatest potential wastes in public school spending lie in the use made of personnel. Uneconomical work loads, use of highly paid personnel to do menial work, idle time, tardiness, absence, and morale must be watched. Planning, careful scheduling, in-service preparation, development of multiple skills, sufficient supplies and tools, attention to physical conditions, operational studies, and supervision are among the chief means for assuring maximum returns for personnel outlays. Work should be appraised by competent persons with due attention to individual differences. The incompetent and unfit should be eliminated from the service.

All policies and regulations relative to payment for services should be published and each employee should have a copy. Definite schedules promote morale. Increments in all schedules should be kept at a minimum during the trial or probationary period. After that, the goal should be to bring all personnel up to a reasonable level in the shortest possible time.

READINGS

Bowles (6); Butterworth and Ruégsegger (14), ch. III; Clark and Others (26); Cooke (27), chs. II-IX; Cooke (28), chs. I-VIII and XII-XIX; Cowen (33); Davis (40); Dix (44); Eels (57); Elsbree (58); Engelhardt and Engelhardt (61), ch. XXV; Harris (78), Part II; Lewis (94), chs. IX-XVII; Linn (95), chs. VIII-IX; Moehlman (103), chs. IX, X, and XVI; Morris (106); Morrison (108), chs. XIII-XV; Mort and Reusser (118), ch. XIII; Mosher and Kingsley (120); National Education Association (125, 128, 131, 132, and 133); Noble (139), ch. VIII; Reavis and Cooper (151); Reeder (153), ch. XIII; Womrath (184), chs. XII-XIV; Young (187).

CHAPTER XIX

Management of Expenditures for Matériel

Expenditures for matériel in schools represent a relatively small percent of total outlays as compared with expenditures for personnel. Although the emphasis must be placed upon the payment for and use of personnel, the financial aspects of matériel cannot be neglected. Effective service presumes a suitable environment and proper tools to accomplish the purposes of schools. Waste in the selection, procurement, storage, distribution, care, and use of materials often consumes resources that might better be spent upon the improvement of services. Moreover, public attention is apt to be centered upon the physical and tangible. Mismanagement of the material side of schooling may involve relatively little waste, but it may weaken public confidence and thereby handicap total operations.

MATÉRIEL MANAGEMENT

Like all concrete aspects of administration the management of matériel has been elaborated in great detail. The very volume of the literature and the many techniques available present a danger. This phase of management is likely to command attention beyond its importance in the budgetary process and daily operations. It is very easy to consume personal services in administering materials that cost much more than the savings actually realized. Above all, the routine of financial management should not interfere with making careful decisions regarding expenditures. Wise expenditures are more important than elaborate recording and accounting for unwise expenditures.

The management of expenditures for materials involves (1) the selection, purchase, handling, and use of books, supplies, and equipment; (2) the planning, construction, operation, protection, maintenance, and utilization of plant; (3) the elimination of risks and hazards and protection against losses, or lawsuits, and (4) economy in auxiliary undertakings, particularly transportation.

THE PURCHASE AND USE OF SUPPLIES, BOOKS, AND EQUIPMENT

Supplies, books, and equipment are grouped together because they have relatively short periods of probable usefulness due to immediate consumption, obsolescence, or depreciation. Supplies are consumed in daily operations. Books that are used daily wear out quickly and most books become dated within a relatively short time. Equipment, including furniture, because of its light construction, wears out in a very short period. In our economy equipment can become obsolete in a short time.

Financial management is concerned not only with obtaining the right quantity and quality of such materials at the best price, but also with protecting them from loss, damage, or misuse. The proper storage, distribution, and use of materials is often more important than the soundness of the purchase program.

PRINCIPLES

The management of supplies, books, and equipment has as its main purpose the making of the maximum contribution to institutional functioning. Materials used in schools are relatively inexpensive as compared with outlays for services. Materials should be managed so as to increase the effectiveness of services. On the other hand, outlays for materials should be kept at the minimum required to do the work of the schools. Specifically, the following basic principles should be applied:

1. Those who use the materials should help select the materials to be used. The attitude of the person performing the service generally is more important than the scientific fact of the relative superiority of a given material. However, scientific selection has an important place in the program.

2. The purchase program should be so managed that personnel will have materials of the right quality in sufficient quantity at the time that they need them. There should be enough flexibility in the program to permit the prompt supplying of unanticipated or emergency requirements for materials.

3. Exact data on quantity and quality are essential for economical and effective purchasing. Without specifications and tests to determine whether specifications are met, price data are almost meaningless. On the other hand, the time consumed in quality control must be considered. The expenditure for personnel must be justified in terms of the economies possible in the purchase program.

4. The quantity of materials to be purchased should be determined by inventories, studies of consumption practices, and the trends in prices.

5. Purchases should be so handled as to secure the lowest possible prices through quantity purchasing, simplification, seasonal buying, competitive bidding, and discounts.

6. Materials purchased should be so handled that the school system knows what materials it has on hand, that they are protected from loss, and that their distribution is subject to accounting and control.

7. Materials should be kept in repair and constant attention should be given to promoting their economical use and proper care.

SELECTION

The person performing an operation is the one to indicate the materials required in his work: books, supplies, equipment and furniture. He also should be allowed to indicate the minimum specifications for the materials required for his work. Management may disagree with the choices made in terms of such considerations as multiple use, durability, standardization, maintenance costs, safety, depreciation, quality, and initial cost. In such cases, the person performing the operations must be consulted and given a chance to appraise or use the materials preferred by management. If the person who must use the materials is not satisfied, management generally should concede. Usually, there is more waste in dissatisfied personnel than there is in purchases. Only in the case of plant and expensive equipment may the outlays be large enough sometimes to outweigh the personal preferences of those currently performing operations. Coöperative study and selection often will eliminate such conflicts.

The superintendent of schools should delegate the actual responsibility for appraising quality, utility, service, and cost to the person possessing the best scientific knowledge for the responsibility.¹ The purchasing agent should keep an up-to-date listing of the materials requested by teachers and others with data on why each is needed and its contemplated use. The person in charge of purchasing, in coöperation with the teaching staff, should carry on continuous studies of new products and their effectiveness in school operations. Materials actually used in school operations also should be studied coöperatively to determine if they are better than alternative materials. Materials should not be of a better quality than the purpose for which they are used demands; but the purchasing agent should not select different materials without consulting the persons who must use them.

Coöperation between instructional staff and the purchasing office often can be secured through joint selection of materials: (1) Where educational values must be weighed against the values of economy in original purchase, durability and low maintenance costs, low operating costs, effects upon other costs, problems of replacements and service, reputation of vender, safety, and obsolescence, joint selection is essential. (2) Where different individuals or departments request materials that are very similar in nature it is oftentimes possible through joint action to find materials that lend themselves to multiple uses.²

It is particularly essential that teachers have a strong voice in the selection of textbooks and other instructional aids. The value of these to the teacher depends upon point of view, content, vocabulary, style, emphasis, accuracy, aids to learning, and adaptations to local needs.³ Judgment of the value of books depends to a large extent upon actual classroom experimentation. It is regrettable that in many states this procedure is impossible due to requirements for uniform textbooks by constitution or statute. In only about a third of the states is the selection of textbooks a purely local responsibility.⁴ State adoption of

¹ *Selection, Purchase, Storage and Distribution of Supplies* (Bulletin No. 1, National Association of Public School Business Officials, 1932), p. 12.

² H. H. Linn, *Practical School Economics* (1934), pp. 66 ff.

³ J. A. Clement, *Manual for Analyzing and Selecting Textbooks* (1942); American Textbook Publishers Institute, *Textbooks in Education* (1949).

⁴ National Society for the Study of Education, *The Textbook in American Education* (30th Yearbook, Part II, 1931), p. 250.

textbooks should be abandoned. It handicaps instruction and opens up textbook selection to strong political and group pressures. Choice of books is made dependent upon state action and not upon the group to be instructed or the program of the school. The policy is unwise educationally, and it is contrary to the avowed doctrine of local initiative.

AVAILABILITY

The main economy in the purchase program comes from having materials in the hands of personnel when they are needed. Otherwise, the waste in service will outweigh the saving in materials. The implications of this principle are many: (1) It means that personnel can secure the right quantity and quality of materials for the job to be done. This will take away the incentive to hoard. Procedures should be set up to assure the prompt return to the stock room of all excess materials so that others may have them. (2) It means that the materials will be available when schools open in the fall. Operational procedures should be efficient enough at all times to have materials in buildings and rooms before they are required. (3) It means that teachers can ask for new or additional materials not anticipated in advance. Such emergency orders should be filled promptly. Where it is physically impossible to provide the materials, the teacher should be notified immediately. (4) It means that the budget should provide allowances for additional items that cannot possibly be anticipated in advance.

This principle cannot be carried into effect unless textbooks, teaching aids, and basic supplies are provided at public expense. Where parents must provide these, the family budget may not permit purchase at the time they are needed. Furthermore, where parents must buy instructional materials, it is very difficult to control quality or to make changes. What the schools can do is determined by the burden placed upon the largest and poorest families and not by the educational program. Over half the states require free textbooks at least at some school level, but in not less than a third of the states it is optional.⁵ Over half the city school systems provide all textbooks and supplies,

⁵ A. B. Moehlman, *School Administration* (1940), p. 439.

particularly in the elementary schools.⁶ On the other hand, there are school systems that provide no supplies and/or textbooks. The rental system used in Indiana, North Carolina, and South Carolina is preferable to leaving the matter to parents.

SPECIFICATIONS

A description of an article to be purchased is a specification. Description must include exact quantitative data such as size, weight, or volume and clearly stated qualitative data such as commercial grade, texture, finish, strength, chemical analysis, or composition. Without such description it is impossible to judge prices or to secure materials suited for the purpose intended.⁷

The number of different articles purchased by school systems runs into thousands. Some are bought every year, others infrequently. Some are bought in large quantities, others in small amounts. It is both impractical and physically impossible to establish detailed specifications for all purchases. The time required to prepare specifications for most purchases in some systems would not be justified by the volume of the purchases. Moreover, the preparation of specifications for many items is a job for specialists; and specifications mean little unless there are facilities for testing materials. Where conformance to specifications is essential for the purpose to be attained or where the quantity purchased justifies the time, specifications and tests for quality are desirable.

The best way for schools to attain scientific purchasing is to use the purchasing agency of the state or a large city or county. The guiding principle in such arrangements is that the schools should be free to determine the minimum specifications for the commodities required. Unfortunately, many states and most cities or counties still do not have specialized purchasing departments; but the number is increasing.⁸ In some cases schools can use specifications prepared by such agencies as

⁶ National Education Association, *Educational Research Service Circular* (No. 5, 1944), p. 3.

⁷ N. L. Engelhardt and Fred Engelhardt, *Public School Business Administration* (1927), ch. XVII; *The Use of Specifications in Purchasing School Supplies and Equipment* (Bulletin No. 6, National Association of Public School Business Officials, 1938); T. C. Little, *Administration of School Supply Purchase in Kentucky* (1949).

⁸ Public Administration Clearing House, Release No. 3, Dec. 10, 1947.

the National Bureau of Standards. A catalog of specifications (*National Directory of Commodity Specifications*) and copies of specifications prepared by this agency may be purchased from the Superintendent of Documents, Washington, D. C. Where the quantity and outlay warrants it, schools can employ the services of a private testing laboratory, such as the American Society for Testing Materials in Philadelphia, to prepare specifications or make tests for quality. The National Bureau of Standards publishes a directory of such laboratories. The National Association of Public School Business Officials has published tests for certain articles.⁹ In the absence of specifications purchases can be made by samples or brand names requiring guarantees that the materials conform to the samples. In some cases certificates as to specifications can be obtained from the venders. The quality labels promoted by the National Supply Association provide such certification.

The time consumed in purchasing and handling materials can be decreased by the use of standard, classified lists of materials. Such lists reduce to a minimum the number of brands, sizes, weights, types, shapes, colors, and qualities. They reduce the work involved in purchasing by providing a minimum list to be purchased annually. By reducing the number of types, larger quantities can be purchased. Distribution is simplified.¹⁰

QUANTITY DETERMINATION

No large purchase of any material should be contemplated without knowledge of the supply on hand in the storeroom and in various operating units. If there is no perpetual inventory, then an inventory should be taken before placing the order. The accumulation of large inventories ordinarily should be limited to periods of inflation. Even in such periods, it should be recognized that any mass buying in advance of consumption itself promotes price increases. Existing stocks of materials should be used up before they are replaced with a new or different item. The only exception would be where the existing article is outmoded. In such case, provision should be made for finding a new

⁹ *Tests of Quality for School Equipment and Supplies* (Bulletin No. 5, National Association of Public School Business Officials, 1934), p. 17.

¹⁰ Engelhardt and Engelhardt, *op. cit.*, ch. XVII.

use for the article, reconditioning it, salvaging it, or disposing of it at the best possible price.

Some school systems arbitrarily assign fixed quantities of supplies to operating units for a given period.¹¹ Such a practice may be necessary to assure an equitable distribution of a limited budget. However, it is not always economical or wise. Operating units should have the supplies necessary to perform their functions. Quantity standards based upon past experience may provide a practical basis for estimating needs, but they should not be used to allocate supplies. On the other hand, the consumption of materials by different units and employees should be studied to discover wasteful practices which can be eliminated. Otherwise, quantity should be determined by requisition allowing for differences in emphasis and practice on the part of various staff members.

Every effort should be made to anticipate the quantity of each material required during the entire fiscal period. The better the estimates the more able management is to obtain the savings possible in quantity purchasing.

PURCHASING

The major economy in purchasing results from quantity buying without the high distribution costs associated with retailing. Quantity purchasing ordinarily means centralized purchasing, but it can be achieved to some extent through coöperative buying and annual buying. Some economies are possible through competitive bids, seasonal purchases, and cash discounts.

The attainment of maximum economy in public school purchasing necessitates centralized purchasing by a state or by a large local unit of government. Although school districts in New York State and a few other states can make certain purchases through a state purchasing department, the full possibilities of this arrangement never have been realized. By pooling the needs of a large number of operating units, a state purchasing department can buy direct from the manufacturer or producer, eliminating much of the wholesale and retail costs. The ex-

¹¹ C. J. Anderson and J. G. Fowlkes, *Study of Budgeting and Allotment of School Supplies* (1928).

tent of the saving depends upon the nature of the commodities. Where a unit can accept carload shipments direct from the producer, the economy is great. Where large shipments have to be made to a regional center serving several units, the cost of distribution is increased, but there may still be a large saving.¹²

Even in small governmental units a degree of centralization can be attained through consolidating all purchasing agencies into one office. School district, town, village, and city purchasing units can be combined into strong county purchasing departments as has been done in some states. As it is, the purchasing even in school districts frequently is not centralized in one office. Various departments may be purchasing identical goods in varying quantities at varying prices.¹³ Such decentralization means buying at practically retail prices and the time consumed may equal or exceed purchases in cost. Accounting control over property and financial operations is almost impossible without centralization.

The first step in improving a purchase program is to delegate responsibility for it to the person best fitted to perform the buying function. He should have a staff relationship to the executive. Purchasing by school board members or individual employees should be prohibited except upon proper authorization. This step will enable a school district to pool its purchasing requirements, to place large annual orders, and to secure better prices. The next step, where centralization among units is not possible immediately, is to promote coöperative purchasing among school systems. This has been tried successfully in states like California, Minnesota, New Hampshire, New York and Ohio. It is especially advantageous for very small school districts where even the annual requirements do not amount to much.

In a buyer's market substantial savings can be realized from competitive bidding. In a seller's market no savings may result, but the requesting of bids protects management from adverse criticism. Sometimes bids are required by law and it is standard practice in most large

¹² See Russel Forbes, *Government Purchasing* (1929); and T. Covert, *Centralized Purchasing and Distribution of Supplies* (Circular No. 112, U. S. Office of Education, 1933). T. C. Little, *op. cit.*; and Council of State Governments, *The Forty-Eight State School Systems* (1949), pp. 88-110.

¹³ H. H. Linn, *op. cit.*, pp. 61-62, 63-64.

school systems. Yet bids by themselves do not assure economy. This depends upon the standards and specifications rather than price alone. Unless requests for bids are sent to all reliable venders, local, state, and national, the advantages of bids do not materialize. Nor can service and coöperation be ignored in bidding.

There are abuses to be avoided in purchasing by bids, such as requiring a large number of venders to supply certified checks which are kept for long periods, using the time of a large number of salesmen in making demonstrations, and long delays in opening bids and awarding contracts. Such practices really increase the cost of goods purchased by schools.¹⁴

Requirements for bidding, notice, form, opening, and award often are established by law. Nevertheless, a school system should have a bid form listing the quantity, description, specifications, and standards of goods to be purchased. This form should state all the conditions to be met relative to submission of bids, substitutions, splitting, opening of bids, awarding of contracts, time and place of delivery, and manner of payment. Where the bid may be split on individual items or groups of items, bidders should be required to supply small purchases. Otherwise, bidders will not quote their best prices on small items. On the other hand, lump-sum bids do not always result in an economy.¹⁵

Generally purchases should be made in the spring to insure delivery during the summer months, but attention should be given to seasonal price advantages. Taking school supplies as a group, the best prices can be obtained in April and May.¹⁶ The same is true of fuel. Garden tools generally can be purchased most cheaply in the fall; snow removal tools in the spring.

Other potential economies include taking advantage of discounts for cash or payment by a certain date, sales, and buying in standard quantities. For example, with certain products buying by carload, barrel, five-gallon, or gallon lots is most economical. Small containers generally increase the price, but the container should be economical for the user. An article that deteriorates from exposure and is used in small quantities can hardly be bought in large containers.

¹⁴ See Linn, *op. cit.*, pp. 79-80.

¹⁵ *Ibid.*, pp. 80-81.

¹⁶ *Ibid.*, p. 81.

Emergency orders should be approved by the person in charge of purchasing, except where the emergency purchase is covered by a general policy. In the latter case he should be notified immediately. Purchasing, like all expenditures, must be subject to budgetary control.

ACCOUNTING, STORAGE, AND DISTRIBUTION

An inventory is essential in the purchase program, and it prevents losses through theft, neglect, misplacement, hoarding, or waste. By indicating what is owned by the system, where it is located, and what condition it is in, the inventory shows whether or not replacements are necessary. Oftentimes, repair or reconditioning is all that is necessary. The inventory shows what materials are obsolete or "slow moving." It also is an essential record for insurance adjustments.

Inventories should be taken at least once a year, but preferably they should come at the beginning and the close of the year. All departments, buildings, and rooms should be subject to inventory control. Losses discovered should be explained. Transfers should be noted. Materials loaned to others should be returned. Surplus materials should be returned to stores. Articles damaged or in need of repairs should be reported. Copies should be kept for insurance purposes.¹⁷

The perpetual inventory used in some school systems provides an up-to-date record of what is owned. By posting all additions and withdrawals when they are made, it shows for each item the amount acquired, its cost, its condition, and its location in the system. Under the plan used in Baltimore, a card is kept for each kind of movable property. By the use of receiving notices and withdrawal notices the card is kept up to date. Acquisitions from vendors, from schools, and repair shops are filed as are removals to schools, operating units, or for obsolescence, breakage, or other reasons. Weekly spot checks and occasional physical inventories are used to check the accuracy of the records. Individual schools maintain a continuous inventory of all easily removable property.¹⁸

The administration of a continuous inventory involves a great deal of clerical work. The labor cost must be weighed against the potential

¹⁷ Engelhardt and Engelhardt, *op. cit.*, pp. 374 ff.

¹⁸ George F. Smith, "Continuous Inventory of Supplies and Equipment," *American School and University* (1945), pp. 386-393.

savings in materials. Under the Baltimore plan withdrawals are kept at a minimum and machine methods are used.

Regardless of where supplies are stored, the central office must assume responsibility for checking their receipt, condition, and conformity to specifications and contracts before making payment. Provisions for storage and distribution depend upon the size of the school system. Unless it results in economies, central storage and distribution has no place in a school system. In small school systems the most economical practice will be to store the estimated needs in the various buildings or operational units. Excesses in one can be transferred to others when shortages or occasion arises. In large systems, it may be more economical to maintain central warehouses or storage centers.

Certain principles apply to either plan of storage. (1) Although materials may be ordered in large quantities, deliveries can be made periodically. This reduces storage space. (2) All storage space should protect goods from damage, destruction, or loss. (3) The stores should be easily accessible and persons should be able to locate items without loss of time. (4) Older stock should be placed in front of or above new stock so that it is used up first. (5) One person should be responsible for receiving and releasing stock from stores. (6) Stock should be handled with the minimum outlay of time for unpacking, arranging, and distributing. (7) Stocks should be released only on written requisition from staff members. (8) Records should be kept of all goods received and disbursed. (9) Unused or surplus materials should be returned to stores without delay. (10) The number of distributions from the storeroom should be kept down to a minimum to save time. Teachers should draw their yearly estimated needs where they can properly store them in classrooms. Otherwise, monthly or quarterly distributions can be made. (11) Individual staff members should be held responsible for items withdrawn.

USE AND CARE

All personnel should be given periodic training in the use and care of materials. The training must carry over into the daily activities of teachers and pupils. This is the positive approach toward eliminating

wasteful practices. It should be supplemented by studies of operational use of materials, by inspection, and by inventory.

The economical use of equipment requires certain precautions. Simple directions should be issued regarding the use and care of simple and inexpensive equipment. Employees should be taught to report damage to or needed repairs for equipment. Such articles should be removed to storage until the repairs can be made. Employees should not be allowed to operate expensive and complex equipment before they have had sufficient instruction and practice. Such equipment should be periodically serviced by a skilled mechanic. Equipment should be kept in repair at all times (minor troubles often lead to major repair bills). Equipment of this kind, when not in use, should be stored where it cannot be tampered with or accidentally damaged.¹⁹

PLANT EXPENDITURES AND UTILIZATION

Existing plant often makes it impossible to attain the maximum economy in personnel and supplies. When new plants are being planned, some of the inflexible and uneconomical features of existing facilities can be removed; but many existing buildings will not be replaced for decades. In the meantime, every effort must be made to increase utilization and through alterations or remodeling bring about every possible economy in operation and maintenance. The value of plant should be maintained as far as obsolescence will allow.

PLANNING BUILDINGS

The purchase of land and the making of capital improvements occur infrequently, but because of the large expenditures usually involved, extreme caution must be exercised. Land for school sites should be purchased years in advance, before subdivision and building have created high land values. Frequently land can be acquired through delinquent-tax proceedings. Capital expansion or improvements should be postponed if possible during war booms or during the upward swing of an

¹⁹ For further details see W. G. Reeder, *The Business Administration of a School System* (1929), ch. XVI; H. P. Smith, *Business Administration of Public Schools* (1929), pp. 267 ff.; G. Womrath, *Efficient Business Administration of Public Schools* (1932), ch. XV; R. B. Taylor, *Principles of School Supply Management* (1929); and *The American School and University* (annual).

inflationary movement. They should be undertaken during depressions and when prices are falling. Painsstaking research, surveys, and planning should precede capital undertakings. The erection of a new plant should be avoided if possible through changes in attendance areas, organization, or scheduling. The cost of remodeling old buildings should be weighed against the cost of new structures. Competent architects, consultants, and inspectors should be employed. Pride, real estate promotion, and local pressures should be resisted.²⁰ School buildings are not enduring monuments. Structures must be flexible and easy to remodel. Expensive stone, metal, wood, or ornamental materials should be minimized in school building construction. Utility, hygiene, safety, simplicity, and beauty are primary considerations, but they can be achieved with due attention to the equally important elements of probable usefulness and flexibility. Rigid structures can mandate wasteful use of personnel and materials for decades. In planning capital outlays, careful estimates should be made of the effects of such undertakings upon current operating expenses.

UTILIZATION

The place to start in improving the use of existing plant is to study the degree of utilization in terms of pupil stations and rooms. Although 100-percent utilization of an entire school plant is an unattainable ideal where there are auditoriums, cafeterias, and other special rooms, it is possible to have utilization of from 60 to 80 percent.²¹ Where utilization is found to be below 60 percent in space and pupil stations, careful studies should be made to determine the causes.

During the past twenty years techniques have been developed for

²⁰ See Linn, *op. cit.*, ch. XIII; N. L. Engelhardt and Fred Engelhardt, *Planning School Building Programs* (1930); *American School and University; Proceedings of the National Council on Schoolhouse Construction*; N. L. Engelhardt, Jr., *School Building Costs* (1939); A. B. Moehlman, *Public School Plant Program* (1929); National Society for the Study of Education, *The Planning and Construction of School Buildings* (1934 Yearbook, Part 1); American Association of School Administrators, *American School Buildings* (1949); C. W. Bursch and J. L. Reid, *You Want to Build a School?* (1947); N. L. Engelhardt and Others, *Planning Secondary School Buildings* (1949); National Council on Schoolhouse Construction, *Guide for Planning School Plants* (1949); L. D. Perkins and W. D. Cocking, *Schools* (1949); M. A. Stoneman and Others, *Planning and Modernizing the School Plant* (1949).

²¹ Engelhardt and Engelhardt, *Planning School Building Programs*, p. 263.

measuring building utilization. The pupil-station has come to be an accepted unit for measurement. It is defined as space for a pupil in a room (space for a seat, a machine, laboratory work, physical activity, or other school activity). It refers to the maximum number of pupils who can be accommodated in a given room for various activities.²² A building which may appear to be crowded in terms of room utilization can have a relatively low utilization when the pupil-station is used as a unit of measurement.

The causes of inefficient utilization are many: (1) lack of correlation between the size of rooms and present practices regarding class size; (2) furniture and equipment built in; (3) lack of soundproofing or other factors like poor light that make certain rooms undesirable; (4) poor schedule planning, not making optimum room assignments; (5) restricting certain rooms to limited uses; (6) lack of storage space for protecting valuable equipment or instruments in special rooms; and (7) large study halls or libraries. The maximum utilization of buildings requires flexibility in plant and equipment. Special rooms should be equipped for multiple use. Cafeterias and libraries should be planned to provide for study in order to eliminate study halls. Soundproofing and isolation should be used to increase the utilization of rooms close to auditoriums, gymnasiums, shops, and music rooms. Basement rooms should be eliminated.

The handicaps of existing space frequently can be overcome by additions or alterations. Large rooms can be divided to take care of more small groups and partitions can be removed from small rooms to accommodate larger groups. Study halls and libraries can be combined. Small furniture can be substituted for unnecessarily large furniture. Protection can be provided for typewriters to increase utilization of typing rooms. Shops and home-economics units can be moved to inexpensive frame buildings close to the main plant. Soundproofing can be installed. Modern artificial lighting can be installed to increase the utilization of dark rooms. Movable furniture can be substituted for fixed furniture. Cafeterias can be remodeled to provide for extra-curricular activities, dramatics, music, or study space.

²² E. L. Morphet, *The Measurement and Interpretation of School Building Utilization* (1927).

Auditoriums, gymnasiums, libraries, and recreational facilities present special problems of utilization. To get the maximum return out of such facilities requires community coöperation. These facilities should be so constructed that they are an integral but separate part of the plant. They should be designed for community use both during and after school hours. Indeed, the cost of such facilities should be shared by school districts and other units of government in proportion to the use made of the facilities.²³ Existing facilities suitable for community use, but not so designed, can be modified to provide for wider utilization. All that generally is required is provision for shutting off sections of the building not required for such use.

The controlling consideration in making outlays for increasing building utilization is economy. Is the cost more than offset by the potential savings in personnel and for materials? Will the increased service provided justify the outlay?

OPERATION

Aside from savings in manpower and purchasing already mentioned there are many other economies possible in plant operation. These include structural changes which will reduce the costs of heating, cleaning, and use of materials.

Among the structural features which can result in heating waste are lack of insulation, leaks around windows and doors, lack of humidity control, poor location of thermostats, excessive ventilation, and heating vacant rooms. Although the elimination of such waste may involve a high initial outlay, the annual savings often will justify the expense. For certain kinds of structures attic insulation can be installed with relatively little expense. Weather stripping, caulking, and double doors are possible in most structures and can do much to reduce heat loss. In cold, windy weather there can be a large heat loss from very small cracks; even locking windows under such conditions will reduce the loss substantially. Where windows are very exposed and not opened during bad weather, storm sash may be installed. Lack of humidity control can make a room seem uncomfortable even at normal

²³ W. F. Clapp and L. B. Perkins, "Designing the School Plant for Multiple Use," *American School and University* (1946), pp. 69-74.

temperatures. With the relative humidity held at 50 percent, a room heated at 68° F. will be comfortable. Each degree of heat maintained above that means waste. Automatic temperature control is a potential saving providing thermostats are properly located and maintained. Excessive window ventilation and obsolete mechanical ventilating equipment add greatly to heating costs. Rooms not in use need not be heated any more than is necessary to protect plant from damage. Heating should be so regulated as to have the building at the desired temperature just before occupancy in the morning, with reduced temperatures after schools have closed.²⁴

Heating costs also are affected by the type of heating equipment in a building. Low-pressure equipment may be more economical than high-pressure through savings in original cost, depreciation, space, manpower, maintenance, and insurance.²⁵ Where buildings are close together, a central heating plant is most economical. Insulating pipes and heating plant will reduce heat loss. Painting radiators properly will increase radiation. The use of automatic stokers sometimes will reduce fuel and labor costs. In some regions oil or gas heating equipment may be more economical. No matter what heating equipment is used, boilers and flues must be kept clean to get maximum efficiency. Equipment also must be kept at peak operating efficiency through inspections, servicing, care, and efficient operation.

Reduction in the costs of cleaning a plant requires removal of causes. Smoke stacks improperly placed or not of sufficient height make dirt. Lack of hard-surfaced entrances with adequate drainage means dirt tracked into the school. Grounds not surfaced or planted in grass mean dust. No provision for vacuum cleaning, especially for chalk trays and erasers, means dust. Properly sealed and treated floors mean reduced time in sweeping. Large containers in sufficient number mean less waste material on floors. Large mats and the cleaning of entrances and halls immediately after opening hours mean less dirt in classrooms.

Operating expenses for materials are closely related to plant and its maintenance. Leaky faucets mean more water consumption. Undiscovered leaks which can be detected only by examining the water

²⁴ H. H. Linn, "Economies in Plant Operation." *American School and University* (1945), pp. 281-289; and *Practical School Economies*, pp. 258 ff.

²⁵ Womrath, *op. cit.*, pp. 164-171.

meters when the building is not in use can mean large losses. The flow of water faucets and drinking fountains should be regulated. Continuously flowing fixtures should be replaced. Automatic shut-off fixtures should be installed. Lighting bills can be reduced through taking full advantage of natural light (clean windows; translucent, double shades in working order; and removal of outside barriers to light, such as overgrown shrubs), using efficient lighting fixtures and bulbs, adjusting the size of bulbs to the need for light, having multiple switches and right-sized wiring, checking connections, fuses, and insulation, and using suitable color schemes in rooms.²⁶

MAINTENANCE

The objectives of maintenance are to preserve the values of plant, to avoid more costly repairs, to make the plant serve its functions at all times, and to remove hazards. Every effort must be made to keep schools open at all times.²⁷

Among the critical repairs in buildings are those relating to roofs, flashings, windows, gutters, water pipes, electrical wiring, and heating systems. These can easily result in greater repair bills if they are neglected. Another group of critical items includes loose bricks, loose boards, slippery steps and floors, exposed wires, and similar hazards to occupants.

Maintenance implies first discovering the need for repairs and second, having a clearing center for determining urgency. Those responsible for individual buildings should be responsible for daily inspection with supplementary inspections at least annually of built-in equipment by experts and of the entire plant by someone familiar with building maintenance. Needed repairs should be reported immediately to a central office to evaluate their urgency. Items requiring immediate attention should be given priority. Others should be taken care of as quickly as their nature warrants. These two steps make possible the intelligent planning of maintenance. Proper attention can be given to the requirements of various buildings. The next step is to consult the plans

²⁶ Linn, *op. cit.*, pp. 268 ff.

²⁷ See Linn, *op. cit.*, ch. X; and *American School and University* (1949), pp. 302-314.

and specifications for the plant where this is necessary. This will save time later on.

The timely execution of the maintenance program in large school systems requires a repair shop and mobile equipment, supplemented by private contracts where necessary.²⁸ With mobile equipment it is possible to make plumbing, electrical, and similar repairs with despatch because needed tools and materials are available on the truck. The central shop staff when not engaged in critical repairs can repair and refinish furniture, tools, and equipment, make parts for replacement, salvage materials, and maintain stocks of items needed in maintenance. They can carry on the long-term maintenance program of painting, replacements, and repairs.

Insofar as possible equipment and materials used in the entire school plant should be standardized—e.g., glass, paint, plumbing, heating, lighting equipment, hardware, and shades. This makes it easier to maintain stock and avoids the delay inherent in obtaining unusual items.

The attainment of an economical maintenance program in most school systems requires a large unit of administration. The volume of work in small districts does not justify full-time maintenance crews. The infrequency and small scale of the undertakings usually means high costs even where labor costs are relatively lower. Until district reorganization is brought about, school systems can coöperate in a county-wide or regional maintenance program with many of the advantages of large city school systems. The chief drawback is transportation. Unless the work of mobile crews is well planned, time lost in transportation may eliminate a great deal of the potential economies. Yet, even the maintenance of a central repair shop would make large savings possible through the repairing, reconditioning, and re-finishing of existing equipment and furniture.

USE

The costs of operating and maintaining plant depend to a considerable extent on how buildings and grounds are used. Regulations should be established to protect plant from unnecessary damage and

²⁸ See *American School and University* (1946), pp. 235-242.

wear. The importance of protecting plant values should be a matter of continuous education with staff and pupils. Every means should be employed to develop civic pride, which can best be developed where the plant is well kept. All use of the school plant should be supervised by a responsible person. Parts of the building not being used should be shut off by gates or doors. Outside agencies using buildings should be required to reimburse the district for damage.

INSURANCE

The largest savings on insurance costs result from eliminating risks and hazards, self insurance in a large unit or state, and securing a rate structure in harmony with the losses incurred. These generalizations apply to all types of insurance for property loss or liability.

ELIMINATING RISKS

Many property losses are avoidable, spontaneous combustion and heating plants being among frequent causes of fire losses. The handling of combustible materials should be regulated and the regulations enforced. Metal containers should be provided for such materials; they should be stored away from materials that can be ignited. Heating plants should be equipped with automatic safety devices, located in fire-proof space, and properly operated and inspected. Fire-fighting apparatus should be installed and kept ready for use. New construction should be fireproof and located where there is fire protection. Underwriters' inspections should be made periodically to discover hazards that can be removed. By removing penalties, lower fire insurance rates can be obtained. The fewer fires that occur the lower the rates that should prevail. Copies of rating sheets should be obtained from the underwriters. Water-damage insurance is expensive and the way to avoid the losses is through good plumbing and adequate maintenance of plant. Comprehensive coverage for wind, tornado, explosion, aircraft, and other infrequent causes of loss is not expensive. Public liability is expensive because it is more difficult to remove or control the hazards. The greater frequency of lawsuits and the larger awards for damages in recent years have pushed rates up.²⁹

²⁹ Engelhardt and Engelhardt, *Public School Business Administration*, pp. 386 ff.

SELF INSURANCE

Insurance is nothing more than a coöperative way of pooling risks. Those who have no losses pay a share of others' losses. Thus in a large school system with many scattered buildings the economical policy may be to assume the risk of fire and property losses. Large units also have the resources to assume the risk for liability. Over a period of years the cost of underwriting the risk will be found to be much less than insuring at current rates.³⁰ It may be necessary to spread the risk when the district is not able to finance the reconstruction of its largest, most expensive building. Some school systems operating under self insurance create insurance funds, but these are not always most economical, as shown in Chapter XVII. Except where they can be well managed and earn more than taxpayers can earn on the same money, the most economical procedure is to pay losses out of current taxes. Where borrowing would have to be resorted to, the interest earned on reserves must be weighed against the interest paid on borrowed money. At the present time (1949) the advantage is in favor of borrowing.

Among the large cities that have self-insured their school properties are Albany, Baltimore, Boston, Cambridge, Chicago, Cincinnati, Cleveland, Columbus, Milwaukee, New York, Philadelphia, Providence, Rochester, San Antonio, Seattle, and St. Louis.

Under a state-operated school system the state could assume all insurance risks. With the increase of state financial support, especially for plant and transportation, the states should move in the direction of assuming the risks of school districts. This would be a type of state support that would result in economy for both the state and the local operating units. Florida, Michigan, North Dakota, South Carolina, and Wisconsin have self-insured state-owned property. The last three and Tennessee have included schools in the coverage. Alabama and North Carolina have state insurance funds for schools.³¹

The main objections to self insurance are (1) the problem of very large losses and (2) the inability to spread risks over a large territory through reinsurance. These are valid objections, but the important issue

³⁰ Linn, *op. cit.*, pp. 315-316.

³¹ O. P. Gruelle, *State Insurance of Public School Property in Kentucky* (Bulletin Vol. 11, No. 3, University of Kentucky, Bureau of School Service, 1939).

is the cost of private insurance as compared with the losses incurred and adjustments actually made. The problem of rates is discussed below.

INSURANCE RATES

Numerous studies have shown that there is a wide margin between the insurance premiums paid by school systems over a period of years and the amounts received in insurance adjustments.³² In the case of fire insurance, schools receive back in adjustments only about one dollar for every four paid in premiums. In Ohio the percentage was 20.3 in counties; 24.0 in villages; and 26.9 in cities for the years 1930–1946.³³ During the period 1921 to 1930 a study of 380 cities in thirty-two states showed a percentage of 28.7; another study covering 257 cities in forty-two states revealed a percentage of 26.9 for the period 1931–1937.³⁴ In the case of fire-resistive buildings, the ratio is much worse—3.61 percent in the national study (1931–1937) and 8.38 percent in Ohio.³⁵

With such large operating costs to provide such a small amount of protection, it is difficult to recommend existing private insurance where self insurance is at all possible. In pure insurance the total premiums (less a reasonable administrative cost) paid by a group should nearly equal the insurance adjustments received by the groups over a period of time. Schools should coöperate to obtain fire-insurance rates that are more reasonable in terms of the losses incurred. If rates cannot be adjusted to the experience of schools with property losses and liability claims, then it may be necessary for schools to obtain a state-wide plan of self insurance or to form a coöperative for pooling risks, operated at cost.

The experience of schools with other types of insurance is no better.

³² H. A. Smith, *Economy in Public School Fire Insurance* (1930); *Insurance Practices and Experience of City School Districts* (Bulletin No. 2, National Association of Public School Business Officials, 1932); *An Investigation of Insurance Practices* (Bulletin No. 9, National Association of Public School Business Officials, 1941); and *American School and University* (1944), pp. 406–409.

³³ Data from the Annual Reports of the State Superintendent of Public Instruction.

³⁴ Bulletin No. 9, National Association of Public School Business Officials, *op. cit.*, p. 15.

³⁵ Same sources as Notes 33 and 34.

For every eight dollars paid out on liability insurance for transportation, one dollar is paid out in claims by the companies.³⁶ In other forms of liability insurance the losses amount to about 7.9 percent of premiums paid.³⁷ On fidelity bonds the losses amounted to 2.98 percent of premiums paid.³⁸

OTHER ECONOMIES

Individual schools can secure better protection and lower insurance costs by the following means. Remove hazards or risks. Have property appraised periodically, allowing for depreciation. Adjust all coverage to the risk; complete coverage of fire-resistive buildings is waste. Keep up-to-date inventories. Insure with strong mutual companies where this is legal or coöperate to legalize this type of coverage. Avoid penalties and hazards in planning new construction. Take full advantage of co-insurance. Adjust the percent of coinsurance carried to the risks involved. Have policies written for five-year terms where this is possible. Include installed fixtures as part of buildings to obtain lowest rate. Obtain reduced rates when boilers or other hazardous pieces of equipment are not in use. Use competitive bidding where this is possible. Employ an insurance adviser paid according to economies effected. Purchase blanket policies where possible.³⁹

TRANSPORTATION OUTLAYS

Transportation service must be provided as economically as possible. It makes hardly any direct contributions to education, its function being limited to getting children to educational opportunities. Any money spent on transportation in excess of what is required by reasonable safety, comfort, and convenience is waste, and often means curtailment in essential educational services. Although transportation expense still represents a relatively small part of total expenditures, it is growing in importance and offers more opportunities for waste than most services provided. Where regular public transportation facilities can

³⁶ *An Investigation of Insurance Practices, op. cit.*, p. 174.

³⁷ *Ibid.*, p. 273.

³⁸ *Ibid.*, p. 275.

³⁹ Linn, *op. cit.*, pp. 330 ff.; N. E. Viles, *Improving the Insurance Programs in Local School Districts* (1934); W. T. Melchior, *Insuring Public School Property* (1925).

be used, often it will be found most economical to use these, particularly city streetcars and bus lines. The general experience has been that district-owned and -operated transportation is more economical than private contract, but not always. Where districts can save by contracting for safe and comfortable transportation they should do so.⁴⁰ This may mean part public and part contract transportation in many districts.

STANDARDS

The efficient and economical management of transportation begins with the formulation of standards for convenience, comfort, and safety, many of which are incorporated into laws or into the regulations of state education departments, state public service commissions, or other agencies having jurisdiction over transportation. Since they are a major determinant of transportation costs, such requirements should be evaluated from time to time and standardized insofar as possible.⁴¹ Lack of uniform standards increases the cost of equipment and operation. Adherence to national standards makes possible mass production and the economies which go with it.⁴²

LARGE UNITS

The efficient and economical management of transportation requires state action, large units of administration, and coöperation with other units of government, because standards, routing (particularly avoidance of overlapping and the transporting of more than one load with each conveyance), size and type of conveyance, road conditions, bridges, traffic, and laws and regulations are such important factors. With large units, duplication in mileage can be minimized in routing. Through large fleet operation and mass purchases through a state unit, initial costs can be kept at a minimum. Operation and maintenance can be kept low by maintenance of shops and use of drivers for other work.

⁴⁰ Linn, *op. cit.*, pp. 435-436.

⁴¹ J. E. Butterworth and Virgil Ruegsegger, *Administering Pupil Transportation* (1941), ch. I.

⁴² See National Conference on School Bus Standards, *Minimum Standards for School Buses* (1939); National Safety Council, *School Buses—Their Safe Design and Operation* (1936).

PLANNING ROUTES

Even in individual districts transportation costs usually can be reduced by careful route planning. All children to be transported should be located on a map showing all schools and roads and their limitations for transportation (bridges, snow, mud, etc.). The various plans of routing equipment owned or under contract should be tried in order to find the most economical routing. Generally long loop routes using large conveyances will prove most efficient. Short routes and small conveyances increase unit costs. Routes of approximately twenty miles not requiring pupils to travel more than an hour one way are most desirable.⁴³ Use of the same bus on more than one route saves money. Where large buses cannot be used because of road conditions, every effort should be made to have the unit of government responsible for the roads make the improvements required. The total mileage and number of conveyances should be minimized. Duplication of coverage should be avoided.

OPERATION

The greatest economies in operation come through well-planned routes, but prudential operation requires the adoption and enforcement of policies and careful selection and training of drivers. Among the basic policies are those relating to use of equipment, care of vehicles, speed, safety measures, and inspection of vehicles. Training should be designed to increase driver skill, care of vehicles, efficient and economical driving methods, safety precautions, rules and regulations and their enforcement. Buses should be housed as near the starting point of the route as is consistent with their protection and the cost of housing. Wholesale purchases of fuel, tires, and equipment should be made wherever possible. Insurance should conform to state laws as to liability, compulsory provisions, and prohibitions.⁴⁴ Fleet rates should be obtained where possible.

⁴³ Maurice E. Stapley, *Suggested Procedures for Securing Economical and Efficient Transportation* (Bulletin of the School of Education, Indiana University, XXIII, No. 4, July, 1947), 8-9.

⁴⁴ W. G. Reeder, *The Administration of Pupil Transportation* (1939), ch. V.; and U. S. Office of Education, *School Transportation Insurance* (Pamphlet No. 101, 1948).

MAINTENANCE

Careful operation will reduce the need for maintenance, but needed repairs must be discovered and made without delay. This requires daily and periodic inspection of vehicles. Drivers should be trained to detect trouble and make minor repairs. Where a number of buses are operated, the maintenance of a garage with full-time mechanics avoids delay, reduces costs, and makes it easier to enforce standards. Where from ten to twenty buses are in use, it is essential, and it may be an economy, to have an extra bus. Buses should be garaged to protect them from damage and the weather, particularly the cold.⁴⁵

SUMMARY

Effective educational service requires suitable physical surroundings and proper tools and supplies. Those who are responsible for operations should participate in the selection of materials to be used. The right quantity and quality of materials should be on hand before they are to be used. Purchasing should be the responsibility of a competent person or agency—preferably in a large unit of government. Exact data on quantity and quality are essential to judge price or cost. Quantity purchasing is possible even in small units through centralized purchasing and coöperative arrangements. An inventory is required to determine requirements, to prevent losses, and to assure repair and reconditioning. All personnel should be given instruction in the use and care of supplies, books, and equipment.

The spending of money for capital purposes should be preceded by careful research and planning. Sites should be secured well in advance of possible need before land values rise. Maximum utilization should be made of existing plant through remodeling where possible and economical. Structures should be flexible and easy to remodel or expand. Utility, hygiene, safety, simplicity, and beauty should be stressed. New buildings should be planned and old structures changed to reduce the costs of heating, cleaning, and other operating expenditures. The maintenance program should preserve property values, avoid costly repairs, remove hazards, and have the plant ready for use at all times. Steps must be taken to assure the proper use of the plant.

⁴⁵ M. C. S. Noble, *Pupil Transportation in the United States* (1940), ch. VII.

The school district has to be protected from property losses or liability. The best way to accomplish this is to remove or reduce hazards. Large units and states can afford to provide self insurance. It also is essential to secure a rate structure for school insurance commensurate with the losses incurred. Blanket policies, fleet rates for transportation, and long-term policies help reduce costs.

Transportation policy and management must be based upon the safety, comfort, and convenience of pupils. However, the potentialities for economy are great through standardization of equipment, state-wide purchasing, large units for operation, careful routing, driver training, district-operated garages, and maximum use of low-cost public transportation facilities.

READINGS

American Association of School Administrators (2), ch. XVI; Butterworth and Ruegsegger (14), ch. II; Cooper (29); De Young (43), chs. III and XII; Engelhardt and Engelhardt (61), chs. XVI-XVII and XXVI-XXIX; Forbes (65); Grace and Moe (73), Part II; Henzlik and Richards (82); Linn (95), chs. V, IX, X, XI, XIII, and XIV; Moehlman (103), chs. XVII-XVIII; Morrison (108), chs. V-VIII, and XVII; Mort and Reusser (118), chs. XIV-XV; National Education Association (127); National Survey of School Finance (135), chs. VI-VII; Noble (139), chs. VII, IX, and XII; Pfiffner (146), Parts II-III; Reeder (153), chs. V-XVII; Smith (163), chs. X-XII; Walker (182), Part II; Womrath (184), chs. XI-XVII.

CHAPTER XX

Accounts, Audits, and Reports in Financial Management

The management of public school finance even in small school systems involves delegation and division of responsibility. The supporting public, their representatives, and management itself must rely upon reports to appraise the fidelity and competence of their employees or agents. Policy decisions involving finance depend upon accurate reports on the financial condition of the school system and on the execution of the budgetary plans. Confidence in management requires assurance that all monies provided for school support have been used for this purpose and that the monies have been prudently managed and expended. Both the public and the school board must have assurance that the reports are accurate and truthful.

The reports required for public information, for policy decisions by controlling bodies, and for administrative decisions depend upon accounting. Accounting involves the complete and accurate recording, classifying and summarizing of all financial facts or transactions.¹ It provides the basic data for determining the financial condition of the school system and administering the budget. However, without an audit the accounts may not reveal the true financial facts or status. Auditing is necessary for the analysis and verification of the financial transactions, facts, and records.² Hence, audits, accounts, and reports in financial management should be discussed together. Any under-

¹ H. A. Finney, *Principles of Accounting* (1946); G. A. MacFarland and R. O. Ayars, *Accounting Fundamentals* (1947).

² R. H. Montgomery, *Auditing Theory and Practice* (1940).

standing of the financial condition of a school district depends upon all three.

ACCOUNTING THEORY

Accounting involves more than the recording of financial transactions (bookkeeping); financial records will not yield the data required for management without planning, classification, and summarization. When financial transactions are summarized under headings or classifications they become accounts. Accounting begins with the designing or constructing of a system of records which will yield the types of financial information required. Next, accounting involves bookkeeping. Finally, it involves the study, analysis, presentation, and interpretation of financial data. The elemental consideration in accounting is the kind of data required in management—the purpose to be fulfilled by the accounting.³

³ MacFarland and Ayars, *op. cit.*, ch. I.

PURPOSES

During the past quarter of a century an extensive literature on public school accounting has been developed. Since the Report of the Committee on Uniform Records (1912)⁴ and Hutchinson's study of public school accounting in 1914,⁵ a great deal of material from business accounting, public finance, surveys of school systems, research studies, theoretical discussions, and descriptions of actual practices has been added to literature on public school accounting.

The resulting mass of unorganized or poorly organized, oftentimes conflicting, materials is confusing to school executives. Probably one of the greatest sources of confusion is the failure to recognize the fact that there are many possible objectives in accounting and that varying purposes lead to varying principles, procedures, or practices. The whole subject of public school accounting has been made unnecessarily complicated for the administrator. No doubt, such confusion and misunderstanding are partly responsible for the wide gap which still exists between actual practices and what has been considered desirable or ideal in public school accounting.

⁴ U. S. Bureau of Education Bulletin 1912, No. 3.

⁵ J. H. Hutchinson, *School Costs and School Accounting* (1914).

There are at least five purposes served by accounting in public schools: (1) to provide data required for state reports; (2) to safeguard public school funds from loss, theft, waste, or misuse; (3) to promote budgetary control; (4) to provide information needed by management in recommending policies or changes in policies, preparing budgets, making decisions, carrying on operations, determining efficiency, and improving operations, or to provide data required to solve many complex economic and fiscal problems involved in public school financial management; and (5) to provide information needed by the public, and school boards in particular, to appraise management.

STATE REQUIREMENTS

State requirements have little value except as they contribute to the safeguarding and management of expenditures in the various school systems affected. The financial data required annually by state education departments or other state agencies generally should be confined to facts useful to the local school system. From time to time state agencies should reexamine their required reports to eliminate duplication and data which are not compiled, data which are compiled but not used, and data which are compiled but not used enough to justify the time and effort involved in obtaining them. State requirements should aid and stimulate local management, not stifle it by making accounting predominantly the routine collection of data for the state. On the other hand, accounts should indicate whether or not all legal requirements have been complied with, for example, legal authorization of expenditures or legal use of certain funds. Where state forms, procedures, or methods are prescribed they should be utilized to the utmost extent to fulfill the purposes of accounting in the local system. Supplementary forms or modifications of state forms should be used where necessary. There is no excuse for allowing state requirements to hamper management.

SAFEGUARDS THROUGH FINANCIAL ACCOUNTING

The type of accounting usually required by law and found in actual practice is useful primarily as a safeguard. Its primary function is that of providing a historical record of all income received and all expendi-

tures made. It is cash accounting. It shows how much cash was taken in during a year, how much was spent, and the balance left on hand. It is the simplest type of accounting and provides much data of value in other types of accounting.

Cash-accounting procedure usually involves two independent records of receipts and payments—one kept by the treasurer and the other by the accounting officer, bookkeeper, or clerk. The treasurer's record consists of a chronological listing of receipts and disbursements on an appropriate form or in the appropriate book. The other independent record consists of a chronological record or register of receipts similar to that of the treasurer and a chronological record or register of expenditures based upon each voucher. Where discrepancies exist between the two records, it is the responsibility of management to reconcile the two.

The usefulness or effectiveness of cash accounting is relative to the following factors: (1) assurance that there is a record of all income accruing to the school system from sales or rentals of property owned, sale and investment of securities, insurance adjustments, profits from business transactions, interest on balances and bank deposits, tuition, refunds, gifts, charges for services rendered, current taxes, delinquent or uncollected taxes, state and federal aids, fines, fees, or other revenue or nonrevenue sources; and (2) the validity, honesty, and accuracy of all original evidences of liabilities, including contracts, purchase orders, payrolls, invoices, canceled checks and warrants, losses, judgments, legal settlements, or other claims.

BUDGETARY CONTROL

Budgetary control means that management at all times must be able to determine quickly the unencumbered balance remaining in each appropriation, or the relationship between anticipated receipts and actual receipts. Encumbrance accounts show all commitments made or liabilities incurred, such as contracts for service or purchase orders, even though payment has not yet been made. Cash accounting, which merely shows how much has been spent, does not reveal the true balance which remains for further expenditures.

Accounting for purposes of budgetary control requires that the

amount appropriated for each undertaking or item in the budget shall be entered at the top of a page in an encumbrance record. When a contract is signed or a purchase order is issued or any other liability accrues, the amount is subtracted from the original appropriation. However, the accrued liability may not always equal the actual amount which must be paid. For example, a teacher may not be able to fulfill a contract and a substitute may be employed at a lesser amount. Hence, it is necessary to supplement accrual accounting by cash accounting.

Cash accounting for purposes of budgetary control requires that each payment out of an appropriation item in the budget be subtracted from the balance on hand in the appropriation in an expenditure ledger. There should be separate columns in the encumbrance record, one showing the payments made on encumbrances and the other the balance unpaid on encumbrances. The true balance may be provided by comparing the balance in the expenditure ledger with the balance unpaid on the encumbrance record.⁶

AS AN AID TO MANAGEMENT

The complexity, difficulty, and cost of accounting are relative to the problems for which it must provide data—the use to be made of accounts. If the problem is simply to determine expenditures by buildings, services, subjects, grade levels, organizational units (for example, elementary), or other units, all that is required is an extension of cash accounting. Each expenditure must be allocated among the various services or units by means of a code and separate accounting records. An account will be kept for each unit or service for which expenditure data are desired. If the problem is to determine cost in terms of goods and services actually consumed, the accounting procedures become much more involved. Inventories, allowance for prepayments, insurance premiums, computed depreciation on furniture, equipment, and buildings, computed rent for land use, and obsolescence are important in cost accounting. To a considerable extent it is estimation.⁷ If the

⁶ See De Young, *Budgeting In Public Schools* (1936), ch. VI, and American Association of School Administrators, *Schools in Small Communities* (1939), ch. XVI.

⁷ See H. C. Morrison, *The Management of School Money* (1932), chs. V–VI, VIII, XVIII.

problem is to determine the economic or social costs of schools, the accounting becomes still more involved and even greater reliance must be placed upon estimation.⁸

One of the major problems of financial management is the determination of values, services, or returns received for money spent. Accounting for this purpose is far from simple, as was shown in Chapter III. It is one of the most complicated accounting or research problems faced by management.

Writers on school finance at one time put much emphasis on unit costs,⁹ a concept found extremely valuable in business management. With the advance of educational science and the great expansion of school services, both in quantity and quality, which have taken place in recent years, most of the unit cost theory as applied to educational costs is not valid, as was shown in Chapter III. Nevertheless, unit costs still are stressed in publications of taxpayers' organizations and others not familiar with the problems involved.

PRINCIPLES

Accounting theory has been derived from business experience. The financial condition of a business is shown by a balance sheet of assets, liabilities, and proprietary interest. In business the real accounts are the records of assets and liabilities. Assets represent things owned, real items such as cash, accounts receivable, land, buildings, inventories, equipment and furniture. Liabilities are debts, including bonds outstanding, notes payable, mortgages, accounts payable, or judgments. In business, nominal accounts are subsidiary records of receipts or income and expenditures or payments which explain any changes in real accounts. Where nominal accounting is done on a cash basis, the terms receipts and payments are used. Where nominal accounting is done on an accrual basis, the terms income and expenditure are used.¹⁰

Public schools, unlike business enterprises, are not primarily concerned with assets and proprietary interest. Public school liabilities can be met by taxation and not by liquidation of assets as in private enterprise. Nor is there any profit or loss in the sense that these terms are

⁸ See Morrison, *op. cit.*, chs. III-IV.

⁹ See B. F. Pittenger, *An Introduction to Public School Finance* (1925), ch. IV.

¹⁰ MacFarland and Ayar, *op. cit.*, chs. II-V.

used in business. Schools render social services paid for largely by taxes. The benefits do not lend themselves to accounting. The yardstick of success is quantity and quality of service, not profit. In public schools the primary concern is with accounting for revenues and revenue payments or expenditures. Revenues are accruals to or additions to cash or liquid assets which do not increase indebtedness, reduce assets, or represent a recovery on an expenditure previously made. Revenue payments are usually referred to as current expenditures. Nonrevenue receipts such as loans, bond issues, sales of property, insurance adjustments which reduce assets, change the nature of assets (e.g., property converted to cash through sale or insurance adjustment), or increase indebtedness, of course, enter into public school accounting. The same is true of nonrevenue payments such as capital outlays, amortization of debt, and interest paid on money borrowed for capital outlays.¹¹

Accounting in business requires double-entry bookkeeping. It is the only way to determine the financial condition of the enterprise, the changes in its condition, and the reasons for the changes. It shows the effects of all transactions on assets, liabilities, proprietorship, income, and expense. The basic principle of double entry is that every transaction consists of value received and value surrendered. Thus, a merchant who sells a pair of shoes receives cash in exchange for shoes. The values received are called debits and the values surrendered are called credits. Debits and credits represent the two sides of every transaction and both must be recorded. Each increase in assets or decrease in liabilities is entered as a debit. Each decrease in assets or increase in liabilities is entered as credit. The accounting equation in business is: $\text{ASSETS (debits)} = \text{LIABILITIES (credits)} + \text{PROPRIETARY INTEREST (credits)}$. In the nominal accounts, each increase in expense or decrease in income is a debit. It decreases proprietorship. On the other hand, each decrease in expense or increase in income is a credit. It increases proprietorship.¹²

The principle of double entry has been extended to governmental accounting and public school accounting. Revenue receipts are entered as debits to real accounts (cash) and as credits to nominal accounts.

¹¹ Lloyd Morey and O. W. Diehl, *Municipal Accounting* (1942), pp. 25-27.

¹² MacFarland and Ayar, *op. cit.*, chs. V-VI.

Cash is debited with all monies received and credited with all monies paid out. The debit balance is the amount of cash on hand. Revenue payments are credited to real accounts and entered as debits to nominal accounts. Nonrevenue receipts are entered both as debits and credits to real accounts. Nonrevenue payments are both credits and debits to real accounts. In public school accounting fixed assets (land, buildings, furniture, and equipment) and bonded debt for these are carried as separate accounts. The reason for this being that the fixed assets are not offset by bonded debt. Bonded debt is offset by amounts set aside for retirement of the debt.¹³

In public school accounting theory the following other principles generally apply: (1) Like all governmental accounting, public school accounting should conform to all legal requirements. (2) Each fund should be subject to separate accounting. Each fund should have its own separate, independent, and complete accounts revealing the balance in each fund. Financial transactions of student activities should be treated as a separate fund and be subject to accounting like any other fund. (3) Accounting records should provide internal checks, one set of records serving as a check on other records. All separate records should be reconciled periodically. (4) Accounting records should be posted without delay and always kept up to date. Records should yield the information required without delay. (5) The controlling consideration in accounting is the need of local management for the information provided. Accounting data that are not used mean waste of personnel and money. Where all records cannot be kept at a reasonable cost, the most vital records should be given preference. (6) The accounting system should be as simple and flexible as possible. (7) The same classifications of receipts or income and payments or expenditures should be followed in budgeting, auditing, accounting, and reporting. (8) Insofar as the requirements of local management will permit, uniform classifications and definitions used in private and governmental accounting should be followed. (9) Records should be protected from loss, tampering, or damage through filing in a vault or fire-resisting safe or file.¹⁴

¹³ C. H. Chatters and I. Tenner, *Municipal and Governmental Accounting* (1940), pp. 19-20; Morey and Diehl, *op. cit.*, pp. 28-29.

¹⁴ Chatters and Tenner, *op. cit.*, ch. II.

CLASSIFICATION

Records of financial transactions must be classified to yield quickly the data required in administration. All receipts or income should be classified according to source under each fund. This facilitates budgetary control of income and fiscal planning. As indicated above, the two major classifications are revenue receipts and nonrevenue receipts. Among the sources under which public school revenue receipts or income are classified should be included school district property taxes, penalties on delinquent school property taxes, other specific taxes collected by the school district, appropriations by other local units of government, taxes collected by other local units of government for schools, grants-in-aid from other local units of government, shared taxes, state aids, federal aids, interest on bank balances or deposits, income from endowments or investments, tuition from other units or individuals, fees of various kinds, fines of specific types, profits from sales of various kinds, rentals, and contributions or gifts. The various classes of nonrevenue receipts include sales of property, proceeds from bond issues or short-term loss, insurance adjustments, refunds on expenditures (current year or a previous year), or collection of accounts or other income receivable during a prior year.¹⁵

The classification of payments or expenditures depends upon the purpose accounting is to fulfill in each fund. As in the case of revenues, the two fundamental classes are revenue payments or expenditures and nonrevenue payments. The latter generally are classified as capital outlays, amortization of debt for capital improvements, and interest on capital borrowing. Interest paid on short-term debt also may be included. Loans made and repaid during the fiscal year are classified separately. Revenue payments, on the other hand, may be classified by character, function, object, or organizational unit or location.

Character classifications refer to prior, current, or future fiscal years. Thus revenues used to pay indebtedness may really be a payment in part for a prior fiscal year. Revenues used for capital outlays are largely payments for future fiscal periods. Character classification is presumed in the distinction between revenue payments and nonrevenue pay-

¹⁵ National Association of Public School Business Officials, *Classification of School Expenditures* (Bulletin No. 10, 1942), ch. III.

ments. It enables management to estimate current operating costs.¹⁶

Functional or activity classifications are the most commonly used headings in public school accounting. They show the relationship of subsidiary activities to the main activity, instruction, and aid in the budgeting and control of expenditures not directly contributing to the main function of the schools. Noninstructional expenditures are generally classified as administration (general control), auxiliary services, operation of plant, repairs and replacements of plant (maintenance), fixed charges, debt service, and capital outlays (plant extension).¹⁷

Activity classifications must change as the educational enterprise changes. When instruction was narrowly conceived, new activities tended to be classified as "coördinate activities" or "auxiliary services."¹⁸ Today some authorities are recommending that these activities be charged to instruction, especially library service, health service, and recreation services.¹⁹ Auxiliary services still include transportation, provision of school lunches, and community services.²⁰

Object classification shows expenditures for (1) debts, (2) salaries and wages, (3) materials or supplies, (4) contractual services, (5) travel, (6) bonds and insurance, (7) rents, (8) pensions, (9) interest and similar objects. It makes possible the analysis of the behavior of various types of expenditures affected by different economic factors.²¹

Organizational classification shows expenditures or costs by divisions, departments, buildings, units, or services. Classifications of this kind enable management to determine expenditures for such items as elementary education, building No. 13, guidance service, instruction in Latin, or kindergartens. They fix responsibility for spending and facilitate budgeting and expenditure control.²²

UNIFORMITY

National and state statistics require uniformity in definitions, terminology, and classification. Although the accounting system exists pri-

¹⁶ Chatters and Tenner, *op. cit.*, p. 180.

¹⁷ *Classification of School Expenditures*, *op. cit.*, pp. 16-19.

¹⁸ *Ibid.*, pp. 28-30.

¹⁹ Regents Inquiry, Finance Staff, *School Accounting and Financial Reporting* (1939), p. 18.

²⁰ *Ibid.*, p. 19.

²¹ Chatters and Tenner, *op. cit.*, pp. 180-183.

²² *Ibid.*, pp. 176-180.

marily as an aid to management, the use of generally accepted or standard definitions and accounting terminology does not necessarily interfere with this function. In so far as possible, the local accounting system should use the definitions accepted by governmental accounting specialists, the United States Office of Education, and its own state education department.²³

Among the sources of error in school statistics are: (1) failure to include school expenses paid by other units of government such as the city, county, or state—some states, e.g., pay the employer contributions to retirement while in others this is a school district charge; (2) lack of agreement of what constitutes current and capital expense (items which are consumed over a period of years, have a separate identity, and are important enough to be included in assets); (3) failure to prorate expenditures carefully under various classifications where services involve more than one function; and (4) lack of uniformity in what is considered an instructional activity or an auxiliary or coördinate activity.

School administrators frequently complain about the lack of uniformity in data used in comparing expenditures or costs among school systems. Under modern conditions the wide variations in the quantity and quality of school services provided by systems make most unit costs worthless, no matter how good the accounting system. Instead of comparing the costs of identical goods and services they compare the known costs of unknown quantities and qualities of an aggregate of goods and services. The only unit costs that have any value are the prices paid for specific quantities of a specific quality of goods or services, such as coal meeting certain specifications. The unit-cost theory even when applied with caution as recommended by the National Association of Public School Business Officials is a dangerous oversimplification of the cost-accounting problem. Unless the quantity and quality of services are known, no per-pupil expenditures or costs mean anything from an accounting standpoint.²⁴

²³ U. S. Office of Education, *Financial Accounting for Public Schools* (Circular 204, 1941); and National Committee on Municipal Accounting, *A Standard Classification of Municipal Revenues and Expenditures* (1939).

²⁴ See ch. III; National Association of Public School Business Officials, *Public School Cost Accounting* (1933); and P. R. Mort and W. C. Reusser, *Public School Finance* (1941), ch. XI.

PUBLIC SCHOOL ACCOUNTING PRACTICE

The foregoing section indicated the value of accounting in financial management, but certain conditions must prevail if accounting is to yield its potential values. All legal requirements relating to accounting should be reviewed from time to time. The purposes to be fulfilled by accounting in the school system must be decided upon. Accounting must be seen in its true perspective as an aid to management, not a substitute for it. The documents, records, forms, and procedures required to attain each purpose must be known. Responsibility for the accounts must be delegated to a person who understands their function and meaning. Insofar as possible, the actual work should be done by persons who understand the significance of what they are doing. Only the minimum, most simple, least expensive, most flexible, most usable forms, documents, statements, records, or methods, requiring the fewest clerical operations necessary to accomplish the purposes, should be used. Duplication in accounts should be avoided; accounts which yield information accurately and quickly should be used. The number of records is less important than the amount of time and effort required to keep them. All records should be related to each other. Management should be constantly on the alert to discover possible improvements in methods, records, or forms. The accounting system should be appropriate to the size of the school system and its cost should bear a reasonable relationship to the amount of expenditures or funds involved.

ACCOUNTING SYSTEMS

Management should adapt its accounts to its own purposes, needs, and resources. However, many of the accounting systems for schools prepared by various states and organizations and individual specialists will be found most helpful in developing local adaptations. New York State developed one of the earliest state systems of school financial accounting.²⁵ Helpful manuals have been issued by New York,²⁶ Penn-

²⁵ H. S. Case, *Handbook of Instructions for Recording Receipts and Disbursements for School Purposes* (rev. ed., 1933).

²⁶ Regents Inquiry, Finance Staff, *School Accounting and Financial Reporting* (1939).

sylvania,²⁷ California,²⁸ Iowa,²⁹ Texas,³⁰ and other states. The United States Office of Education,³¹ the National Education Association,³² and the National Association of Public School Business Officials,³³ have all prepared materials. Among the specialists who have published works on school accounting are Engelhardt and Von Borgersrode,³⁴ Fowlkes,³⁵ Moehlman,³⁶ and Peel.³⁷ Kemmerer developed a system of accounting by machine methods.³⁸

PERSONNEL

The chief executive of a school system is responsible for accounting, but he cannot be expected to master or handle the details of accounting. Nor can the job be delegated to an untrained clerk as it is in many school systems. The person handling the accounts, the accounting officer, must have specific preparation for his work. His duties include (1) planning and constructing the system of records to be kept, (2) outlining the methods and procedures to be used in accounting, (3) supervising or handling all bookkeeping or record keeping, (4) exercising accounting control over all financial transactions and keeping the records incidental to such control, (5) preauditing expenditures, (6) exercising accounting control over all funds and income and keeping the records essential for this purpose, (7) current auditing and

²⁷ Lester K. Ade, *A Uniform Accounting System for School Districts* (Bulletin No. 115, Department of Public Instruction, Pennsylvania, 1939).

²⁸ California, State Department of Education, *Handbook of Instructions for Classification of School Expenditures* (1939).

²⁹ R. E. Williams, *Uniform Financial Accounting for Iowa School Systems* (1934).

³⁰ Texas State Department of Education, *Manual of Instruction in Financial Accounting* (1933).

³¹ Bulletins, 1912, No. 3, and 1928, No. 24, and Circular, 1941, No. 204.

³² Research Division, *School Records and Reports* (Research Bulletin, Vol. V., No. 5, 1927).

³³ References cited previously.

³⁴ F. Engelhardt and F. Von Borgersrode, *Accounting Procedure for School Systems* (1927).

³⁵ J. G. Fowlkes, *Handbook of Financial Accounting for Schools* (1924) and *Principles and Practices of Financial Accounting for Schools* (1934).

³⁶ A. B. Moehlman, *Public School Finance* (1927), chs. VIII, XII-XIV, XX-XXII.

³⁷ A. J. Peel, *Simplified School Accounting Systems* (1925).

³⁸ W. W. Kemmerer, *School Accounting by Machine Methods* (1930).

protection of revenues or income, and (8) providing the data and reports required by management, school boards, and state laws.

The work of the accounting officer is supplemented and checked by a system of records maintained by an independent treasury or treasurer of the school district. The treasury maintains an independent and chronological record of all cash received and disbursed and the balance on hand. The treasury reports immediately to the accounting officer all receipts, supplying the accounting officer with copies of all receipts issued, and provides periodic reports of balances. Management should require monthly independent reports from the treasury and the accounting officer and should reconcile any discrepancies.³⁹

DOCUMENTS

Financial transactions begin with (1) the creation of liabilities—contracts for services or orders for materials, authorized by the budget resolution or appropriation and (2) the levy and collection of taxes or other charges authorized to meet such obligations. Accounting is based upon these original evidences of assets or liabilities. Contracts for personal services usually are evidenced through a payroll. Others are evidenced through the use of purchase orders. Both should be paid by warrant or check. Among the documents basic to accounting should be included budgets, contracts, requisitions, purchase orders, receiving reports, canceled checks, check stubs, material receipts, vouchers, employment records, signature cards, vacation and leave records, schedules of rates for utility services, time-clock records, daily time records, individual work reports, judgments, payrolls, authorizations of payroll deductions or assignments, warrant checks, payroll vouchers, payroll checks, invoices, job or work orders, receipts for money, certificates of state aid payments, tax rolls, and appropriation resolutions. Such documents show liabilities, payments, receipt of money, and amounts owed the operating unit. Every transaction other than contractual ones should be initiated by a purchase order not valid without the approval of the accounting officer. All such original evidences should be preserved and filed by the accounting officer.⁴⁰

³⁹ Morey and Diehl, *op. cit.*, ch. II.

⁴⁰ Morey and Diehl, *op. cit.*, ch. VIII.

In keeping original records or documents, as in all routine features of expenditure management, overelaboration should be avoided. Only the data which are most useful in management should be kept. Duplication in such records should be avoided. Records should quickly yield a maximum of information with the minimum expenditure. Flexible, loose-leaf forms, serially prenumbered forms—bills, receipts, vouchers, and checks—and standardized or uniform-sized records involving a minimum of clerical work should be used.

The documents used in collecting monies due and making payments should be designed to facilitate accounting. They should facilitate the tracing and recording of financial transactions. They should contain complete information regarding the transaction—authorization, date, amount, use or purpose, persons held accountable, and classification for accounting. Such data generally are recorded on a voucher jacket or part of the voucher order check. Such a posting document contains the information required by the accounting officer, facilitates reference to other documents involved in the transaction to which it is attached, and when issued in triplicate provides a memorandum for the venter and the treasurer, as well as the accounting office. Reference to individual accounts generally is made by a system of coding.⁴¹ A summary of the basic expenditure documents and the basic documents for receipts has been prepared by the New York State Education Department.⁴²

BOOKS OF ORIGINAL ENTRY

Books of original entry are those in which financial transactions are entered from documents for the first time in chronological order. In public school accounting the essential records of this kind are a register of receipts, a register of vouchers, and a register of disbursements. The first, kept by the treasury, shows the receipts for each fund, and shows the source either by designation or code so that receipts may be classified by source. The second is kept by the accounting officer and shows the expenditures authorized for each fund by vouch-

⁴¹ N. L. Engelhardt and Fred Engelhardt, *Public School Business Administration* (1927), pp. 256 ff.

⁴² New York State Education Department, Finance Division, *School Accounting Documents* (1936), p. 11 and p. 25.

ers approved for payment. It shows the total vouchers issued up to date and serves as a check on the next record. The third is kept by the treasury and shows all disbursements for each fund made to date.

GENERAL LEDGER

The most important book of final entry is the general ledger which controls and summarizes all the accounts. It should be kept by the accounting officer and the posting should be done by persons having no connection with subsidiary records. It provides an independent check on all other accounts. It contains sections for each fund. Each section provides for recording all transactions in the fund and showing its status at all times. Entries are posted at least once a month from voucher jackets or voucher order checks referring by number to the voucher. Debit and credit balances within the general ledger must balance. General ledger accounts must be reconciled with subsidiary records or accounts. Such balancing should be done at least once a month. In large systems a card ledger system using machine methods may be most economical.⁴³

The general fund accounts needed for controlling income through the general ledger include at least the following:

1. *Cash*. This accounts for all money or credit. It is debited with all public monies received from all sources. It is credited with all payments. The debit balance is the cash on hand.
2. *Petty Cash*. Debit with the amount set up for petty cash and credit with amount turned back to reduce it.
3. *Taxes Receivable*. Separate accounts are kept for the current year and the prior year. The current account is debited with the school taxes assessed, levied, billed, or estimated for the current year. It is credited for collections, cancellations, or abatements. The debit balance represents taxes uncollected. The prior-year account is debited with the amount of uncollected taxes at the beginning of the fiscal year. It is credited in the same manner as the current account.
4. *Grants-in-Aid or Shared Taxes*. Debit with all amounts of computed or estimated financial assistance accruing from county, state, or federal

⁴³ For sample forms see Regents Inquiry, Finance Staff, *op. cit.*, pp. 30-31; Morey and Diehl, *op. cit.*, ch. IX; and American Association of School Administrators, *Schools in Small Communities* (1939), chs. XVI-XVII.

sources. Credit with payments received or reductions in the amount accruing from any source. If the amounts from any one source are large, separate accounts may be set up.

5. *Miscellaneous Accounts Receivable (current year)*. Debit with amount billed or accruing from contracts or other transactions. Credit with collections, cancellations or rebates. Where the amounts from any one source are large, separate accounts may be set up.
6. *Short-Term Loans Payable*. This account is credited with amounts borrowed on short-term credit. It is debited with amounts repaid. The credit balance shows the amount unpaid.

These may be supplemented by such accounts as allowance for uncollected taxes, prior-year miscellaneous accounts receivable, allowance for miscellaneous accounts uncollectable, estimated miscellaneous revenues, actual miscellaneous revenues, and unrealized accrued revenues.

The minimum general ledger general fund accounts for controlling disbursements are these:

1. *Encumbrance Obligations (current year)*. Credit with the amounts of all contracts, purchase orders, or other obligations accruing. Debit with amounts paid or canceled. The credit balance shows the commitments not yet paid for.
2. *Unexpended Appropriations*. Credit this account with the amount appropriated in the budget and debit it with all expenditures.

These may be supplemented by such accounts as stores inventory, accounts payable, reserve for prior-year obligations, reserve for prior-year stores obligations, reserve for stores, unallocated appropriations, appropriation allotments, unappropriated surplus, expenditures chargeable against allotments, stores expenditures and credits, encumbrances charged against allotments.

SUBSIDIARY RECORDS

Subsidiary records posted from the books of original entry provide summaries of all transactions by individual funds and accounts. Among the subsidiary records kept are (1) revenue and receipts ledger, (2) expenditure ledger, (3) encumbrance record, (4) bond and interest record, (5) property and equipment record, (6) insurance record, (7) payroll record, (8) stock record, and (9) such other records as are required by local management, such as accounts for individual

prepared on costs of specific operations. The auditor's report should be made independently and should verify or point out discrepancies or errors in the accounting officer's report. Reports for state agencies and the public should be prepared from the foregoing.⁵⁸ Legal requirements as to publication should be adhered to, but this does not mean that the published reports should be routine, detailed, and uninteresting.

INTERIM AND ANNUAL REPORTS TO THE PUBLIC

Many school systems, if they report at all to the public on financial operations, limit such reporting to annual financial statements appearing in annual reports, budget documents, or a formal report. Under our democratic and representative form of school government, school officials, if they are to retain public confidence and support, must keep the major facts of financial management before the public. Monthly bulletins or newspaper releases supplemented by occasional feature articles and news releases provide the repetition needed for public understanding. The annual report should not be limited to fiscal data, but should relate such facts to the plans, programs, and achievement of the schools during the year. However, a detailed financial report should be available and open to public inspection at all times. It should be issued promptly at the close of the fiscal year.

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The presentation of financial data to lay groups requires the use of techniques which foster interest, clarity, and emphasis. Graphs, pictures, charts, attractive format, clear type, open pages, colors, and brevity create interest and contribute to clarity. Technical terms should be avoided or defined; explanatory headings and comments should

⁵⁸ *Ibid.*, pp. 44-45.

⁵⁹ Morey and Diehl, *op. cit.*, ch. XV.

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SUMMARY

Accounts, audits, and reports are essential for appraising the fidelity and competence of management. The quality of reporting depends upon the accounting system and the verification of accounts requires an audit. However, auditing goes beyond the verification of financial transactions.

Accounting will vary according to the purposes it is to fulfill, namely, reporting, safeguarding funds and assets, exercising budgetary control, and providing data for policy formulation and management. The first two purposes can be satisfied with a simple system of cash and property accounting. Budgetary control requires encumbrance accounting—knowledge of the unencumbered balance in each appropriation. The kind of accounts required for the fourth purpose will vary with the complexity of the problems to be solved.

Among the fundamental principles to be applied in public school accounting are: (1) separate accounts for each fund; (2) use of internal checks; (3) application of the double-entry theory; (4) uniform classifications and definitions; (4) simplicity and up-to-dateness; (5) protection of records from loss, tampering, or damage; (6) competent personnel; (7) preservation of all documents; (8) record of all authorizations; (9) flexible system of books; and (10) control through a general ledger kept by someone other than those responsible for subsidiary records.

⁶⁰ Mort and Reusser, *op. cit.*, pp. 269 ff.

There are four types of audits—preaudits, current audits, operational audits, and postaudits. The preaudit checks all proposed liabilities for need, authorization, legality, and availability of funds. It is the responsibility of the chief executive. The current audit checks the preaudit approval, the rendering of the service or receipt of the goods, conformance to specifications and prices, and the accuracy and completeness of all documents or records involved. Operational audits check performance against plans outlined in the budget. The postaudit checks the legality, honesty, and accuracy of all records and financial transactions. Postaudits by state agencies should be so handled that they do not hamper local management.

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De Young (43), ch. XIII; Engelhardt and Engelhardt (61), chs. XI–XIII, XXIII–XXVI, and XXX–XXXII; Engelhardt and Von Borgerode (60); Foster (66); Fowlkes (68); Frostin (70); Grace and Moe (73), ch. XIII; Moehlman (103), chs. V–VI, VIII, and XX–XXII; Morey and Diehl (105); Morrison (108), chs. I–II, V–IX, and XVII; Mort and Reusser (118), ch. X; National Association of Public School Business Officials (123); Reeder (153), ch. VI; Smith (163), ch. VI; Womrath (184), ch. XVIII.

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buildings, departments, transportation routes, or other operations. In small school systems the first of these can be omitted since reports can be quickly prepared directly from coded items in the book of original entry.

The expenditure ledger contains separate columns, pages, or sections for each fund and account classification. The first entry is the appropriation for the particular heading in the budget. As payments are made they are entered, totaled and subtracted from the previous balance. The ledger shows the unexpended balance without further computation. However, for budgetary control this ledger must be supplemented by an encumbrance record showing commitments against the appropriation. The difference between the expenditure total in the ledger and the total in the encumbrance record shows obligations outstanding. The difference between the unexpended balance in one ledger and obligations outstanding is the free or unencumbered balance in the appropriation. In small school systems, especially, it is possible to eliminate the encumbrance record by filing all encumbrance documents according to budget items.⁴⁴

Property records are essential in every school system to prevent losses, to plan purchase and building programs, to plan insurance programs, and to settle insurance claims. Where any cost accounting is to be done, property accounting is very important because costs include imputed rent for land used, obsolescence and depreciation, and materials consumed in operations. Stocks on hand must be subtracted from expenditures for materials in computing costs. Since various classes of property are subject to different economic factors and to different hazards, property must be classified for accounting purposes—land, building, permanent or fixed equipment or property, movable equipment in use, movable equipment in storage, books, and stores.⁴⁵ The property ledger or record lists each piece of property, its characteristics, location, estimated life, date of acquisition, original costs, cost of repairs, remodeling, or improvements, or additions to value, deductions from value, depreciation, and present value. This record is verified by periodic physical inventories of property owned.

⁴⁴ Regents Inquiry, Finance Staff, *op. cit.*, pp. 31–35.

⁴⁵ Engelhardt and Engelhardt, *op. cit.*, pp. 332 ff.

INTERNAL ACCOUNTING

A separate literature has been developed on accounting for student activity or nonpublic financial operations in schools. The same theory and practice, however, apply to this aspect of accounting. It should be treated like the accounting for any other fund. This means that all such accounts should be centralized and subject to the same controls applied to public funds. The treasurer will be distinct from the school district treasury, but the district accounting officer should control the financial transactions, supervise their accounting, and provide reports to the school board and management. As in the case of district funds, payments should be made only by check upon proper authorization.⁴⁶

AUDITING

A primary purpose of auditing in public schools is to verify the financial status of the operating unit. An audit also protects the school system and its management against serious errors, omissions, discrepancies, fraud, illegalities, losses, or improper expenditures. It tends to prevent carelessness or mismanagement. Although this negative aspect of auditing is commonly emphasized in public management, the more important aspect of auditing is the continuous improvement of business management. However, it must be recognized that auditors only should recommend desirable changes in policies, procedures, or practices; auditors should not determine policy or managerial methods. Nor is it a legitimate function of auditors to enforce or interpret laws. Audits should aid management in avoiding mistakes and illegal acts. Even good management requires audits to assure taxpayers that their affairs are being well-handled.

Auditing can be divided into four types—preaudits, current audits, operational audits, and postaudits.⁴⁷ Although the literature on finance tends to stress the postaudit by persons outside the school system, all three are essential for securing maximum returns for money spent and for protecting the school system from errors, omissions, losses, or defalcations. All four apply to both school district finances and to internal financial operations.

⁴⁶ A. B. Moehlman, *Public School Finance* (1927), ch. XXII.

⁴⁷ H. Walker, *Public Administration in the United States* (1937), pp. 254 ff.

PREAUDITS

Management is responsible for making a preaudit of all proposed financial liabilities or commitments to see that each expenditure is needed or justified, that the expenditure is authorized, that it is legal, and that there are unencumbered funds available to make the expenditure. The decision as to the need or justification of the expenditure certainly is one to be made by the chief executive or one of his staff who is familiar with the total needs of the school system. Decisions as to how a service or a good conform to specifications or agreed-upon standards frequently require professional judgment. Otherwise, many of the steps in a preaudit can be performed by a nonprofessional officer. In a small school system, part of the preaudit may be performed by a competent clerk or secretary, and in a large system management may be aided by the budget office, the accounting office, or the comptroller's office, usually in the school system itself, but not necessarily. Preaudits by outside agencies, except as they relate to the legality, authorization, and balances available to make payment, are not conducive to good expenditure management. Such preaudits deprive management of its chief function, finding ways and means to achieve the objectives with the minimum outlay of resources.

To be of most value in management the preaudit should conform to the following three principles:

1. Each item of expenditure should be approved beforehand by the chief executive or his deputy, after making certain that the item has educational value, that it is needed more than other items, that it is legal and conforms to the policies of the system, that it is suited to the use to be made of it, that it is economical, and that there are unencumbered funds available to pay for it.
2. All commitments should be considered in relation to other needs. Is this item needed more at this time than some other item? Management should keep a list of needs and not make any outlay unless it is near the top of the list, ranked according to urgency or importance.
3. Commitments should not be made without due consideration to (a) future expenditures (maintenance, repairs, operation, and service) and (b) effects upon other expenditures.⁴⁸

⁴⁸ *Ibid.*

CURRENT AUDITS

Closely related to the preaudit is the current or internal audit which checks the preaudit approval or authorization of an expenditure, the rendering of the service or the receipt of the goods, the conformance with specifications, the orders or agreements, the prices charged, and the presence of errors or omissions in all documents or records involved. Although the checking of the goods or services against specifications, especially those relating to quality, requires professional skill and judgment and must be performed by professional officers, most of the steps in the current audit can be handled by the accounting officer or his staff. The current audit should include all treasury operations. Collection of monies due the school system, the issuance of receipts, deposit of funds, balances, and disbursements should be controlled through daily reports and periodic audits.⁴⁹

A current audit of receipts by management will detect errors or dishonesty before they become serious. This type of audit, which is especially important for miscellaneous school district receipts or internal receipts, checks the accuracy of statements of money taken in by comparing the statement with prenumbered receipts, sales slips, tickets, or other controls. It checks the anticipated revenue from a given transaction or source with the amount reported and turned over to the treasury. It checks the amount actually realized and deposited with the records.

OPERATIONAL AUDITS

The operational audit or work audit aims to check performance during a given period with plans appearing in the budget or work program. It is a most important function of management, requiring professional skill and technique. It is a task which cannot be delegated to a business or budget office, except possibly to check expenditure estimates against actual expenditures or to figure the unit costs requested by management. Many educational operations do not readily lend themselves to periodic audits. The objectives are too varied; the factors involved are too numerous; too much depends upon past experiences; the results are cumulative and expanding, and the most valuable results

⁴⁹ J. M. Pfiffner, *Public Administration* (1935), pp. 348 ff.

do not easily lend themselves to measurement or appraisal. Hence, operational audits by agencies of questionable competence in educational matters are of little value in management. Improvement is best promoted by occasional surveys of total operations and frequent surveys of detailed operations by qualified outside agencies such as state education departments and university specialists. Where unbiased audits are desired by controlling boards, outside expert appraisals may be undertaken. A research division can contribute much to operational audits if staffed with sufficient experts or specialists.

POSTAUDITS

The postaudit of all receipts and expenditures by outside auditors to check the legality, honesty, and accuracy of all records and transactions and to suggest possible improvements in management is the fourth type of audit. This audit may be detailed or it may follow a random sampling procedure. It may be done by private firms or state officials. In the case of public schools, such audits have the greatest value to management if they are done by specialists in school administration. Usually, these are most apt to be available in audits made by state education departments. If possible, an outside audit should be made every year, with a detailed audit alternating with a sampling audit if necessary. Proper postaudits not only do much to preserve public confidence but they also contribute to expenditure management.⁵⁰ Unless the postaudit is made by competent specialists not connected with the control and management of the schools, it has little value. Audits by school board members have little value unless supplemented by professional, outside audits.⁵¹

The auditing of public school receipts and expenditures depends very largely upon certain original documents or records. Reports, accounts, and accounting procedures are not better than these original evidences of accrued assets or liabilities. The number and type of original documents or records available will be relative to the procedures established for the management of income and expenditures, but certain ones should always be preserved, including contracts for personal serv-

⁵⁰ See Engelhardt and Engelhardt, *op. cit.*, pp. 840 ff.

⁵¹ H. H. Linn, *Safeguarding School Funds* (1929), pp. 153 ff.

ices; contracts or agreement for the purchase of goods and services; invoices; all other evidences of financial liabilities such as judgments; copies of bills issued by the school system; and all other evidences of monies due the system, including correspondence, certificates, or tax rolls. Copies of requisitions, bids, or quotations, time sheets, payrolls, receipts issued, warrants or vouchers, canceled checks, and check stubs also are essential. Without such records the auditing and appraisal of financial operations are made difficult.

The steps followed in making a postaudit of financial transactions may be summarized briefly as: (1) verifying the opening balances through reconciling bank statements, treasurer's reports, and the books; (2) verifying receipt of monies accruing through examination of tax rolls, certificates of apportionment of monies from other units of government, duplicate bills and receipts issued on payment and other evidences and comparing with deposits (the postaudit is facilitated by prenumbered bills and receipts issued in duplicate with one copy kept on file); (3) verifying the posting of receipts in accounts with due allowance for uncollected monies; (4) verifying disbursements through examination of payrolls, invoices, vouchers, and canceled checks, (5) verifying the posting of disbursements through examining checks both as to signatures and amounts and comparing with entries in accounts; and (6) determining the closing balances and comparing with bank balances. The degree to which these steps show the true statement of the fiscal affairs of the district depends upon the extent to which auditors discover monies accruing and services and goods actually received for monies spent. Too frequently audits are limited to checking the accuracy of record keeping.⁵²

The audit report should begin by explaining the nature and scope of the audit. Any discrepancies discovered should be explained if possible. If no errors or discrepancies are found, a statement to that effect should be made. Improvements in business practices, methods, procedures, or accounts should be recommended where necessary. The report should be published.⁵³

⁵² New York State Education Department, *School Accounting Documents* (Bulletin No. 1094, 1936), pp. 33-34.

⁵³ *Ibid.*, pp. 34-35.

STATE AUDITS

The increase in the proportion of school revenues obtained from state sources has increased state concern over the protection of school funds. It is legitimate that states take steps to assure the people of the whole state that the data used in apportioning state monies to subordinate units are accurately and honestly reported. It also is prudent for state units to make certain that money appropriated for schools or specific educational purposes is spent for these purposes and not lost, dissipated, diverted, or wasted. However, attempts by states to safeguard school finance through laws, regulations, and audits can easily hamper local management in getting the maximum return from all revenues.⁵⁴

States should require periodic postaudits by properly certified school auditors in all school districts and should provide in state education departments competent auditing services available on call by localities. State audits of school accounts should be made by specialists in both school management and auditing and preferably should be under the state education department.⁵⁵ Where state auditing services are performed by other state agencies, state education departments and educational organizations should strive to have school management specialists on the staff. In a state like New York where most auditing of school financial affairs is done by the State Comptroller's office, conflicts easily arise between the education department and the auditing agency. Such an arrangement requires joint policy determination and auditing reports should clear through the State Education Department before being forwarded to local management. The report should be approved by both the auditing agency and the state educational authority.

The danger in audits made by state agents to protect a state's interest in school finance arises from the tendency of such auditors to interpret laws and to take advantage of their authority to change local policies. Auditors should not decide the purposes for which school funds should

⁵⁴ Mort and Reusser, *op. cit.*, pp. 166 ff.

⁵⁵ Ralph Yakel, *Legal Control of Administration of Public School Expenditures* (1929), pp. 124 ff.

be spent or make their own interpretations of laws; this is the province of the courts.

The very nature of state audits presumes law enforcement. A state cannot allow expenditures for purposes expressly prohibited by constitution or statute. If any law is outmoded or unduly restrictive, it should be repealed or modified. A state cannot permit the expenditure of funds in an illegal manner, e.g., where a school board member is expressly prohibited from having a financial interest in a contract with, or a sale to, a school corporation. On the other hand, state auditors should not disallow an expenditure simply because the law has not yet made it mandatory or permissible. If local management had to wait for permissive legislation for every improvement that has been made in school operations, the schools would have ceased to be adaptable. Management must feel free to experiment and exercise initiative in meeting new or unusual problems.

A fundamental principle for both state agents and local management to remember about state audits is that an auditor's report does not have the force of law. Where it is convinced that state auditors have overstepped their function, local management should not hesitate to refer the matter to the courts for a decision.

State audits of school districts should be limited insofar as possible to determining honesty, accuracy, and use of monies for educational purposes. Any addenda as to legality, policy, or administrative detail should be offered only as suggestions. Local management should weigh the recommendations, but not allow the prestige of the state agents to determine policy or practice. Management should be free to fulfill the functions of the schools to the best of its ability.⁵⁶

FINANCIAL REPORTS

There are two types of reports used in financial management: *internal reports* for use of those responsible for the control and management of the schools, and *public reports* for explaining the financial status of the school system or relating finances to the educational pro-

⁵⁶ E. L. Morphet, "Criteria for Distinguishing Between Functions Involving Auditing Services and Those Involving Policy Control," in American Educational Research Association, *Practical Value of Educational Research* (1938), pp. 9-10.

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⁶⁰ Mort and Reusser, *op. cit.*, pp. 269 ff.

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Like accounts, reports must be adapted to the purposes to be fulfilled. At least once a month the treasurer and the accounting officer should submit independent reports to be reconciled by the superintendent. Both should also submit annual reports and the accounts of both should be reconciled through an audit. The annual report of the school system should show the financial condition of the district, the results of financial operations compared with budgetary plans, the results of the audit, and significant trends.

READINGS

De Young (43), ch. XIII; Engelhardt and Engelhardt (61), chs. XI-XIII, XXIII-XXVI, and XXX-XXXII; Engelhardt and Von Borgerode (60); Foster (66); Fowlkes (68); Frostin (70); Grace and Moe (73), ch. XIII; Moehlman (103), chs. V-VI, VIII, and XX-XXII; Morey and Diehl (105); Morrison (108), chs. I-II, V-IX, and XVII; Mort and Reusser (118), ch. X; National Association of Public School Business Officials (123); Reeder (153), ch. VI; Smith (163), ch. VI; Womrath (184), ch. XVIII.

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gram. Reports or publicity on financial operations, a valuable safeguard and contributor to public confidence, must be based upon the accounting system. The effectiveness of all reports and publicity as safeguards, therefore, is relative to the caliber of accounting in the school system.

Reports should be issued at least monthly by both the accounting officer and the treasurer for presentation to the board of education. These should not be overdetailed and technical. Periodic and annual reports should be prepared for the general public. These should be limited to fundamentals, should be simple, and above all should be interesting and attractive.

PURPOSES

Financial reports, like accounts, serve a number of purposes in fiscal management: (1) they summarize statistics for state and national agencies; (2) they serve the prudential principle by acting as a safeguard; (3) they provide basic data required for budgetary planning and control; (4) they supply information required by school boards in policy formulation and the appraisal of management; (5) they present information required for public understanding and confidence in public school administration. Each of these purposes governs the frequency, type, and style of the reports.

DAILY REPORTS

The only daily internal report generally required is the treasurer's daily cash reports showing the receipts, disbursements, and balances in each fund for days on which transactions have taken place. The reports submitted to the accounting officer for each separate fund should be accompanied by duplicates of deposit slips and receipts issued. In large school systems the superintendent's office may need a daily encumbrance report showing the free balance for each appropriation.

MONTHLY REPORTS

Management requires at least two monthly internal reports—one from the accounting officer and the other from the treasury. The accounting officer's report should summarize and interpret the significant facts about the month's financial transactions accompanied by a bal-

ance sheet, a statement of receipts for each fund compared with budget estimates for the month and the year to date, a statement of budgetary commitments (encumbrances) compared with budgetary appropriations for the month and year to date. It may also contain a statement of fixed assets, a statement of bonded debt, and such other cost data as management may request. The balance sheet should show the general fund balance in various general ledger accounts. Where there is a building fund a separate balance sheet should be presented. The treasurer's monthly statement of receipts, disbursements, and balances should be reconciled monthly with the accounting officer's reports. Such reporting and reconciliation is essential for budgetary control and the management of expenditures and income.⁵⁷

OCCASIONAL REPORTS

Policy making and administrative decisions frequently require special internal reports from the accounting officer or the treasurer. From the accounting officer statements may be required as to plant values, property inventories, stores, costs of specific undertakings, trends in receipts or expenditures, unit costs of specific goods, estimates of the cost of new undertakings, ultimate or terminal costs of contemplated policies. Reports may be required on tax collections, trends in revenue collections, and other data affecting income. Such special reports are particularly essential when the budget is being prepared.

ANNUAL REPORTS

Annual financial reports fall into the following types: (1) internal reports for school boards and management by the accounting officer, (2) internal and external reports of the auditor, (3) external reports for state agencies, and (4) external reports for the public. The basic report is that of the accounting officer summarizing and interpreting the financial condition of the operating unit, showing the balance sheet for each fund, analyzing opening and closing balances, giving statements of receipts, appropriations, and detailed expenditures classified by fund, activity and object, and containing the treasurer's cash report, the property inventory, the bonded-debt statement, and any statements

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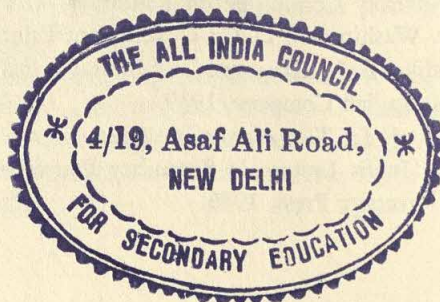
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